FOREIGN BARRIERS TO U.S. TRADE

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY

OF THE

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BANKING, HOUSING, AND URBAN AFFAIRS
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PART II—MERCHANDISE EXPORTS

THURSDAY, MARCH 4, 1982

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met at 9:40 a.m. in room 5302, Dirksen Senate Office Building, Senator John Heinz, chairman of the subcommittee, presiding.

Present: Senators Heinz and Chafee.

Senator HEINZ. Today's hearing is on nontariff barriers to merchandise trade. I will excerpt several comments from my opening statement but I'm going to put the entire statement in the record.

[Complete opening statement follows as though read:]

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. The postwar trading system, which has done so much to foster stability and prosperity in the Western World, stands at the crossroads. In one direction lies protection and artificial barriers constructed to protect the weak and the inefficient. In the other, I see the promise of a truely open trading system, one where access to markets is reciprocal, governments work to remove rather than to construct barriers, and the consumers of all nations benefit from the truly free and fair exchange of goods and services.

That is the choice with which we in the United States are faced. But that choice is not ours alone to make. For it will depend on choices made by our trading partners in Japan, Germany, France, and all the other great trading nations of the world. The multilateral trade negotiations were a watershed in the developments of trade policy. The negotiations of the Tokyo round produced hundreds of tariff reductions and numerous separate agreements on a wide range of codes of behavior for conducting international trade. New ground was broken in areas such as government procurement and standards. Loopholes which had permitted dumping and subsidy practices were tightened. Significant progress was made.

But much remains to be done if we in the United States are to gain the full benefits of the open trading system we have worked so hard to establish. Major barriers to trade still exist in many parts of the world. That is what this hearing is about. It is the second in a series of hearings which this subcommittee plans to hold on the subject of barriers to trade. On November 9 we looked at barriers to trade in services and found that the recent trend in service trade is certainly not toward an ever more open trading system. Close allies, such as the Canadians and the French, are creating rather than tearing down barriers to the free exchange of services.

Today, we will look at merchandise trade to see what can be done to enhance the openness of the world market in that area. We will focus on Japan in this first merchandise trade hearing for a number of reasons. After Canada, Japan is our largest trading partner. Japan is the country with which we have had the most spectacular successes in increasing trade over the past two decades. It is also the country with which we have had the greatest frustrations. Over the last 20 years, as manufactured imports have increased almost sixfold as a percentage of our gross national product and threefold in the European Community, as motorcycles, automobiles, steel, stereo systems, televisions, cameras, and dozens of other products have penetrated—and some cases even taken over—the American domestic market, manufactured imports have actually declined as a percentage of GNP in Japan.

Obviously, this discrepancy cannot simply be explained away by the high quality of Japanese goods and the low quality of U.S. goods, as some would have us believe, or by the tired argument that American businessmen simply do not try hard enough to penetrate the Japanese market. Certainly, the Japanese have been ingenious in penetrating and satisfying the American consumer market. But Yankee ingenuity has not been accorded that same opportunity in Japan. That is what this hearing is about.

Free trade is a two-way street. In all too many cases Japanese decisionmakers have chosen to ignore this simple proposition. The United States has been a leader in the removal of trade barriers. But, too often Japan has chosen to follow our lead in form but not in substance. Somehow they fail to understand that our doors cannot remain open indefinitely to those who shut their doors in our faces.

We have to remember that in Japan we are talking about the second largest consumer market in the world, larger than Germany and France combined. In products such as semiconductors, we are talking about one-quarter of the total world market. Such a market is too important to be written off. An $18 billion trade deficit with Japan, which is predicted to go to $25 billion this year, is a problem which cannot be ignored. The 67 measures recently announced by the Japanese Government show the beginnings of a recognition of the problem, but only the very beginnings. Many are so vaguely worded that we won't know what they mean until they are put into effect. Others are absurdly narrow in their applicability.

The access problems we face in Japan are particularly difficult to pinpoint because, in many cases, they involve subtle forms of administrative guidance, or distribution systems which are so complex and interwoven that it is almost impossible for an outsider to penetrate. In such cases, it seems to me, that burden should not be placed upon the U.S. businessman or trade negotiator to offer a solution. It should be enough for us to point out the anomaly of U.S. products which are competitive and sought after in every market but Japan. Then, it is for the Japanese Government to step forward with workable plans to allow U.S. companies access to the Japanese domestic market commensurate with the opportunities which we have offered to Japanese products in our domestic market.

Previous disappointments keep me from being very optimistic that any significant or lasting benefit to the Japanese-American bilateral trade balance will result from the latest list of 67 measures. Clearly, our President needs additional tools to enable him to negotiate for the removal of barriers erected against American products in Japan and elsewhere. If we believe in the free market system, then it is our responsibility to promote such a system on a worldwide basis.

Last month I introduced S. 2071, the Reciprocity in Trade Services and Investment Act of 1982, to help the President in his efforts to achieve the truly free world trading system we want. I look forward to hearing the comments of the witnesses today on the relevance of that bill to the problems we face in Japan and elsewhere.

Just after my reciprocity bill was introduced, I saw a reaction in the Mainichi Shimbun newspaper of Tokyo calling it "excessively hysterical" and warning of a "recurrence of the big panic of the 1930's" if the bill is passed. Akio Morita, the chairman of the Sony Corp., called reciprocity "misguided protectionism." I would like to reassure my rather hysterical Japanese friends that my purpose in drafting that legislation was not to force Japan—or any other country—to recast itself in our image. Nor was it to create new barriers to trade within the United States. Rather I seek to encourage a creative dialog between our country and its trading partners aimed at achieving an international system based on principles of reciprocity and national treatment. That is a simple, golden rule of trade. I do not believe that I am too idealistic in believing that it can be achieved, But I am also not so naive as to believe that it will be achieved without arming our trade negotiators with the weapons they need to convince their counterparts that it is in their interests to open their markets and to treat us with the same degree of fairness and access we have accorded to them.

Reciprocity is not a dangerous new form of protectionism. To the contrary, it is a simple principle of fairness, one which the Japanese Government ignores at its own economic peril.

Our first two witnesses today are the Honorable Lionel Olmer, Under Secretary of Commerce for International Trade, and David Macdonald, Deputy U.S. Trade Representative.

Gentlemen, we welcome you both. We are delighted you are here and I would like to ask Mr. Olmer if he will begin.

STATEMENT OF LIONEL OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE

Mr. **Olmer**. Thank you, Mr. Chairman.

I'm very pleased to have the opportunity to testify before you today on the subject of nontariff barriers in Japan. I have a rather lengthy prepared statement to submit for the record and I would like to briefly summarize those remarks at this time.

Before I begin, I might point out that very recently an American scholar of oriental affairs described for me the meaning of the word-picture character, the character for reciprocity, and it is a twist on the Golden Rule that goes something like this: Do not do unto others what you would not have them do unto you. And I submit that's an interesting bit of orientalism that might be a guide for our trade negotiations.

[Complete statement follows.]

PREPARED STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman, I appreciate this opportunity to testify before your subcommittee today on the subject of non-tariff barriers in Japan.

I have long believed that our relationship with Japan is the single most important bilateral relationship we have. For more than 30 years, it has been one of the pillars of the free world.

It is as an advocate of stronger bilateral ties that I speak with great concern today about the issue of free access to the Japanese market. This issue threatens our relationship with Japan and is fraught with dangers for the world trading system.

SETTING

Let me describe the setting in which the drama is being enacted so that you will understand the depth of my concern. In 1982, we witnessed the first decline in the volume of world trade induced by economic circumstances since World War II. We estimate the volume of world trade declined by about 3 percent.

Breaking more than three decades of trade expansion, this decline reflects the troubled economic times in the world today. In Europe and the U.S., 20 million people are unemployed. Inflation, though abating, is still very high by historic standards. Trade and payments imbalances continue and are growing.

Because of this, it is difficult to accept the fact that one major economy, Japan, enjoys relatively high economic growth, low unemployment, and trade surpluses by taking advantage of the world free trade system, and by maintaining domestic markets closed in comparison to those of other major trading partners.

These are the classic conditions which in the past have led governments to blame others for their problems and to seek solutions in protectionism. This could easily happen again if the major industrialized economies do not behave responsibly.

TURNING POINT AND BACKGROUND

In the lives of nations as of people, there are turning points where the quality of the future rests on the outcome of a critical choice. I believe we are at that kind of a time of decision in our trade relations with Japan.

For more than three decades, a severe imbalance of market access has existed between Japan and the United States and Japan and the rest of the industrial world. The Japanese market has been relatively closed to manufactured goods imports throughout this time. The protection provided to its domestic industries permitted the creation of world scale Japanese industries able to penetrate foreign markets without threat to their safe domestic haven.

This circumstance began to develop shortly after the war. Japan was devastated and needed to rebuild its industries and to acquire foreign technology. Foreign exchange for buying food and raw materials was critically short. Imports had to be strictly controlled and exports developed to pay for imports.

In these circumstances, the Japanese Government established comprehensive mechanisms aimed at controlling imports, currency rates, and at developing domestic industries.

The U.S., far from seeking on open market, encouraged and aided Japan's reconstruction activities. Indeed, the USG even had programs to stimulate imports from Japan. Our trade policy was not based on seeking equality in a world of peers. It was aimed at sharing the wealth.

It was an appropriate policy at the time. The U.S. accounted for over half of world production, and, in fact, had no peers. Other nations, and particularly Japan, looked upon the U.S. as a mentor and guide.

However, Japan ceased being an underdeveloped disciple of the U.S. a long time ago. Old habits die hard. Even today we hear the refrain the "Japan is a poor island nation, with no natural resources, which must export to live." Thus, Japan continues to hold to a dependency relationship, though it gained equality long ago. There is a tendency to view the United States as somehow economically omnipotent and as a target at which to shoot.

In the United States, old habits die hard also. The U.S. is accustomed to being number one and to exercising easy superiority. It does not, even now, fully comprehend the economic momentum of Japan. While the Japanese are racing to win, the U.S. tends not to understand that there is a race.

The fact is that Japan is equal and its economic power has outpaced its assumption of responsibility for the liberal trading system.

I don't mean to say there have been no changes over time. Beginning in the mid 1960's, Japan began some liberalization steps and has continue these through several rounds of GATT negotiations. Thus, today, Japan has abolished all but 27 quotas and has one of the lowest average tariff levels in the world. Foreign investors no longer are forced to enter joint ventures with Japanese firms and procedures have been somewhat simplified.

Despite these moves, little has happened in a practical way. In 1960, Japan imports of manufactures as a percent of GNP were 1.6 percent. In 1980, they were 1.5 percent. Thus, Japanese imports as a percent of GNP have actually declined in the past 20 years despite what was apparently extensive trade liberalization by Japan. In the U.S., the figures were 1.6 percent in 1960 and 3.5 percent in 1980, and in Europe 2.5 percent in 1960 and 4.5 percent in 1980.

Another way of expressing this phenomenon is that in 1981, Japanese imports of manufactures totaled about $29 billion, while those of Switzerland, with an economy one-tenth of that of Japan, totaled $27.5 billion.

Thus, it seems on the face of it that Japan remains, in fact, as closed today as it was 20 years ago. To quantify this, we can say that if Japan's markets were as open as those of the U.S. and Japan had the same import percent of GNP for manufactures, U.S. exports of manufactures to Japan in 1981 would have been $15 billion more than they were and there would have been virtually no trade deficit.

BARRIERS

How, you ask, can Japan be considered closed if Japan has few quotas and low tariffs? The answer goes back to the system of government-business relations established after the war in Japan that I noted earlier.

Lifting tariffs and quotas, when your industries are strong and competitive, is not really very liberal or risky. And the nontariff barriers and controls that were established to foster and protect industries in the course of Japan's development have become so much a part of life that they have never been really removed and may not even be recognized as barriers sometimes.

These barriers take the form of:

1. Remaining formal quotas;
2. Government monopolies;
3. Restrictive government procedures;
4. Government-fostered projects;
5. Cartel-like activity; and
6. Biases against dealing with foreigners.

Let me briefly outline how each works.

QUOTAS

Japan maintains quotas on 22 agricultural goods, four leather products, and coal briquettes. These quotas have been in violation of Japan's GATT obligations for years.

The reason they exist in spite of this is that they are politically sensitive. Japan has not altered its electoral districts since they were first established after the war. At that time, Japan had a largely rural population. Today, 30 years later, the population is largely in the cities, but the representation base remains the same. It has been estimated that redistricting would cost the LDP 200 seats and its majority in Parliament. Hence, there is the tight clinging to the rural districts and the quotas which protect them.

In the case of leather, quotas are maintained to protect the Dowa, a class of people who have traditionally been relegated to so-called "unclean" work and who have never been integrated into Japanese society.

I believe, Mr. Chairman, that politicians everywhere can understand these problems. However, I submit that others have similar problems and have not tried to solve them with severe trade restrictions. In our own case, many of our unemployed are from minority groups. Yet in support of free trade, we have allowed imports to take major market shares.

GOVERNMENT MONOPOLIES

Japan also maintains a government monopoly on salt and tobacco. Despite years of negotiation, U.S. cigarettes, which enjoy an 80 percent market share in the free market of Hong Kong, are restricted to 10 percent of the distribution outlets in Japan and are so taxed that they cost 50 percent more than Japanese cigarettes. The result is a market share of 1–1.5 percent in Japan.

These are the obvious barriers Mr. Chairman. They are important, but compared to some of the subtle barriers, they are less important because at least they can be identified.

Let me now deal with some things that are more subtle and much more meaningful.

GOVERNMENT PROCEDURES

Ministry of Health and Welfare (MHW)

Drugs, cosmetics, food items, and medical instruments, etc., must be approved for sale in Japan by MHW. The problems involved in this often seem to be endless.

For example, there are lists of government-approved ingredients for such things as cosmetics. These lists are not readily available, so one doesn't know before submission what will be approved and what won't. Moreover, there is no timetable according to which the Ministry is required to respond and no avenue for recourse if an adverse ruling is made. Moreover, small changes in many products require new registration as a separate formula rather than simply a registering of ingredients.

Now, my Japanese friends are quick to point out that these requirements apply to Japanese as well as foreigners, and that is correct. However, it is worth noting that this is a system which is made for insiders. Drug companies in Japan often hire ex-MHW personnel in order to have influence in the right places, and I submit that foreigners will never be insiders in Japan. Indeed, the system is tailor-made for keeping foreigners out. As an example, we know that in some cases, lists of ingredients unavailable to foreigners are known to Japanese companies.

Moreover, there are requirements which do overtly discriminate against foreigners. For example, the GOJ has historically refused to accept much of the test data for food and drugs which is submitted to other governments for product safety evaluation. This means long and laborious retesting has had to be done in Japan during which time Japanese competitors were often able to catch up, before or at the same time as their foreign competitors. In the future, some animal test data may be accepted, but other tests will still have to be redone in Japan.

Japanese companies do not face similar problems in the U.S. Here the FDA makes known to all its approved ingredients, required tests, and test procedures. The system is completely open and transparent.

Ministry of Finance (MOF)

Investment

One effective way for a foreign company to obtain a capability in a new country is by acquisition or investment in that company. Many American companies have obtained footholds in Europe in this way and vice-versa. And Japanese companies have been active in acquiring stakes in U.S. firms. But there are relatively few instances of acquisition of Japanese firms by either Eruopean or U.S. firms and the number of 100 percent U.S.-owned manufacturing subsidiaries in Japan is very small.

In the early years, this was so because it was against the law. Later, the prohibition was relaxed, but the law still required approval of foreign investments by the Ministry of Finance (MOF). Last year this was modified so that specific approval is not required. However, prior notification to the MOF of investment plans by foreigners is still required and MOF has many ways of holding up such plans if it so desires. Moreover, Japan requires that acquisitions be friendly, that is the management and unions of the company being acquired must agree to it. While this is true for Japanese companies as well as foreigners, it is likely to work more against foreign interests.

TAXES

If we turn to taxes we find that Japanese commodity taxes on some items are imposed on the exfactory price of domestic goods, but on the CIF price plus duty on competing foreign goods. Again this is contrary to practice in the U.S. and elsewhere in the world.

YEN RATES

Or, if we look at the yen, my Japanese friends are fond of telling me that the problem in our trade is high U.S. interest rates and the strong dollar this causes. Well, I don't believe the dollar/yen rate is the major explanation for our trade deficit. Our studies indicate that U.S. exports to Japan are relatively inelastic with regard to the yen rate. This is logical since they tend to be primarily agricultural goods and raw materials.

However, the yen rate does have some influence on Japan's exports to us. I would like to point out in this regard that the MOF restricts use of the yen so that there is not a free yen capital market. If there were, demand for the yen would drive its value up vis-a-vis the dollar and the EC currencies and Japanese imports would be affected.

Obviously, this is in contrast to the U.S. which is the world's leading capital market.

SERVICES

In the area of services, the GOJ does not accept internationally approved requirements for insurance documentation, especially with regard to new lines of insurance.

Foreign carriers are discriminated against in terms of airport facilities and services, and cargo tariffs, discounts and rebates favor national carriers. Foreign lawyers are prohibited from studying for the bar exam in Japan and foreign lawyers may not practice as lawyers in Japan. Indeed, U.S. lawyers nave difficulty traveling to Japan on a visitors visa if they state that their profession is that of lawyer.

In contrast, Japanese lawyers may practice in the U.S., in some cases even without taking a bar.

Foreign securities companies are presently barred from membership on the Tokyo stock exchange. The Tokyo exchange recently announced it will study the possibility, but as a practical matter, this is not very meaningful, since the exchange has limited membership and acquisition of Japanese securities firms would be impossible.

In the area if insurance, deposit requirements are imposed on foreign insurance companies but not on Japanese. Moreover, there are severe requirements on remission of profits.

MITI

MITI's primary raison d'etre is to oversee and lead a healthy Japanese industrial development. It has historically followed a strategy of identifying and fostering key industries like steel, semiconductors, and computers, while protecting and gradually winding down uncompetitive industries like aluminum and paper.

What does this mean in practice? First, it means MITI has enormous power and influence. It is empowered to issue administrative guidance which, because of the Ministry's power, is close to law in Japan. It means the Ministry can advise an industry to reduce capacity or to invest. And, it also means it can issue guidance to an industry to hold down the level of imports. This has happened in the past and is occurring now in the ammonia fertilizer industry.

In the case of industries in trouble, MITI has a remedy called a "depressed industry Cartel." This allows the industry to form a cartel to fix production and prices for a limited period of time while it, in conjunction with MITI comes up with a rationalization plan.

Such cartels are now in force or are being considered for the pulp and paper industry, and the petrochemical industry.

Now, my MITI friends assure me this has no effect on trade and is strictly a domestic measure. But I do not agree. In a normal market, when an industry gets in trouble some companies are weaker than others. Their customers become worried and look for other sources of supply. Or, the companies may become candidates for acquisition a la American Motors in the U.S. In Japan, this course of events never follows because everyone knows MITI will rush into the breach. And when MITI does assist, it is not with the idea of bringing foreign firms into the act.

I think I hardly need to point out that such cartels and government interference are absolutely unlawful in the U.S. Here, people can go to jail for what the Japanese do as a matter of national policy.

If we turn to key industries, the story is not dissimilar. Here, MITI identifies areas in which it wants Japanese firms to excel. These currently include semiconductors, computers, aerospace, biogenetics and telecommunications. In the past, they have included steel and shipbuilding.

In these areas, MITI often selects certain companies to be its chosen vehicle for development. Cooperative research programs are established with partial funding by MITI. Special investment incentives and depreciation schedules may be granted. In the case of computers, a government backed leasing company was established to buy computers from Japanese manufacturers and thereby provide a volume market. This was done at a time when IBM dominated the Japanese market. The MITI policies were aimed squarely at breaking that dominance.

Foreign companies may be excluded from these projects and special grants, even if they have Japanese subsidiaries. Very importantly, technology generated by GOJ funded R&D, regardless of the percent of government participation, is not freely accessible to foreign companies. While MITI states that such technology may be licensed, the fact is that such licensing agreements are subject to MITI approval. This is in direct contrast to the U.S. where the terms of such licenses are not reviewed by the government except when national security is involved.

The case of IBM is perhaps a good example of how the system works. In the 1960's, IBM was the major source of computers in Japan as it was in Europe and elsewhere. IBM had been in Japan a long time and was one of the few companies to have a 100-percent U.S. subsidiary in Japan. It undertook extensive manufacturing operations in Japan and tried in every way to be a good Japanese citizen.

Throughout the last ten years, MITI has been striving to build a Japanese computer industry. That meant it wants Japanese owned companies, as opposed to foreign owned companies such as IBM, to make computers in Japan.

In addition to the leasing program noted above, the Government of Japan, which is a major computer customer, followed a policy for years of buying only Japanese computers whenever possible. Moreover, it made known to business and the populace at large that it favored Japanese-produced computers. Thus, despite its bests efforts, IBM was never accorded national treatment in Japan.

This same attitude continues to influence treatment of high-technology firms in Japan today.

NON-GOJ SYSTEMIC PROBLEMS

Now, one might think, having gotten by the government hurdles we would have free sailing. But this is not so.

Japanese industrial structure is dominated by large groups such as the Mitsui and Mitsubishi groups. These groups consist of intertwined banks, manufacturers, and trading companies, all with cross share holdings, lendings and relationships. To give you an idea of how it works, let's take the soda ash industry. The major trading companies are the importers of the raw material for making soda ash. Once the ash is manufactured, they then become the major distributors for the manufacturer. At the same time, they are designated by the soda ash association as the major importers of foreign soda ash. It is clear they have a vested interest in maintaining the domestic industry and in keeping imports moderate.

It is these intertwinings that make the Japanese distribution system so difficult to penetrate. Under Japanese law, buyers can discriminate between vendors. Pressure can be brought to bear and distributors made to toe the line. Thus, it was perhaps easier for Sony or Honda, who sell more overseas than in Japan, to obtain mass distribution in the U.S. than it was in Japan. Indeed, this is often what accounts for the phenomenon that imports from Japan often retail for less in the U.S. than in Japan.

PLAIN BIAS

Then, we come to the final barrier. Japanese companies (not consumers who often prefer foreign goods), but companies, often follow "buy Japanese" policies. This is often cloaked in explanations of the need for stable, reliable supply with the implication that foreigners are not reliable. Sometimes, it is explained as, "when I get in trouble, my Japanese supplier will help me out."

It is at least partly the overhang of years of admonishment by government and business leaders to produce and export while keeping imports to a minimum. And it is partly the insecurity of people who still believe and are told by their government that they are a poor island nation struggling for existence.

Whatever it is, it is real and it does affect imports.

WHAT TO DO

Mr. Chairman, I could go on with more specific examples, but I think I have already said enough to indicate that the problem is not one of specifics, but of pervasive policies, procedures and structures.

There is no doubt that the Japanese market is not nearly as open as that of the U.S. And there is further no doubt that as long as the imbalance exists, our trade deficit with Japan will grow.

The question, of course, is what to do As you know, we have been carrying on extensive negotiations with the Japanese on these topics.

Some progress has been made. Last month, the GOJ announced a package of measures aimed at alleviating or changing some of the practices I noted above in the areas of standards and customs.

Last week, Chairman Esaki led a delegation of Diet members to explain the measures to us. While it is still unclear what will actually change, it is possible that in the area of customs and standards there will be some progress. And I should add, I believe Chairman Esaki is sincerely concerned and looking for solutions to the problem.

Having said that, I must also say that the exercise has been a disappointment so far. Of the 67 measures announced, five were counted twice, 19 had been handled previously, ten were individual product problems, and only 9 or 10 have any immediate significance.

I was particularly disappointed by what I perceive as the Japanese desire to compile lists of items and negotiate them one by one, while the problem I see goes far beyond that.

In view of this, it is difficult not to be sympathetic toward the objectives of some of the reciprocity legislation which has been introduced in the Congress.

I know in many quarters this is being labeled "protectionism" in sheeps clothing. I don't believe that that is necessarily true. All of the GATT negotiations have been based on the concept of reciprocity, that the giving and taking would be approximately equal over the long run.

The problem is that where Japan is concerned this hasn't been achieved, and what we in the Administration are seeking is nothing more than the same opportunity for American companies to compete in Japan that Japanese companies have in the U.S.

This Administration is not for protectionism, and I am not for protectionism. But we are for a fair shake and in that sense we understand the objectives of your proposed legislation.

However, I am not convinced, despite all our talks, that the Japanese have really understood us. Many of the things we are talking about are part of the structure and practice in this economy which has grown up over a period of years.

I believe in many cases the Japanese are sincere when they insist their markets are open. Because the practices that appear to be barriers to us are so much a part of the everyday landscape in Japan that they are considered normal, or even, perhaps in some cases, part of the Japanese way of life.

It is thus natural that they would not understand that we are indeed asking for some fundamental changes.

In view of this, I believe it behooves us to do everything in our power to achieve understanding. As I said in the beginning, we have a uniquely important relationship. It would be a tragedy for it to founder on trade problems. However, the time for action and meaningful results has come.

Senator HEINZ. Thank you, Secretary Olmer.

Ambassador Macdonald.

STATEMENT OF DAVID MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. MACDONALD. Thank you, Mr. Chairman. Much of my statement overlaps the statement of Under Secretary Olmer. We have tried to put forth in written form the full panoply of details regarding what we can presently see of the Japanese import regime. This does not mean that we see it all. It is like an onion. You can peel off the outer skin but there are successive layers underneath it that any one of which can obstruct an American exporter.

So, with your permission, I will leave that statement on the record just for reference purposes.

Senator HEINZ. Without objection, your entire statement will be made part of the record.

[Complete statement follows:]

STATEMENT OF DAVID R. MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE

There is no question that our access to the Japanese market does not compare with Japanese access to our market. Despite a substantial effort by the Japanese Government to address the problem, the following nonexhaustively lists barriers which U.S. companies face in trying to export to Japan.

Provisional List of Japanese Barriers to Trade

I. TARIFF BARRIERS

When the MTN reductions are fully implemented in 1987, Japan will have an average tariff level roughly equivalent to the United States and the European Community. Even with the MTN reductions, however, there remain a significant number of peaks in the tariff Japanese level that impair U.S. access in areas in which we are competitive. We note this latest fact simply to bring this Committee's attention to the full panoply of obstructions to U.S. exports.

II. NONTARIFF BARRIERS

A. Quantitative restrictions

1. Formal Quotas. Japan maintains formal quotas on imports of 27 items (list at Attachment A).

2. Quotal Administration. There continues to be a general problem regarding the lack of transparency in the Japanese Government's establishment and administration of their import quotas. United States exporters have cited incidents, for example, in which quota allocations to individual Japanese importers may be suddenly and without explanation reduced, resulting in a reduction of U.S. exports. Importers wishing to purchase an item under quota restrictions face a myriad of administrative obstacles. Twice a year they must apply for an import quota allocation. As a part of this process they are required to present confirmed order sheets from end users as well as import data for the product for the preceding year. If import quota allocations are being requested for non-liberalized items, the Japanese importer must indicate precisely why the product needs to be imported. In all, it can take a Japanese importer months to answer all of the questions put to him by the Ministry of Health and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of International Trade and Industry.

Examples of quota administration problems are:

Herring: Ninety percent of the quota is allocated to the Hokkaido Federation of Fishermen's Cooperative, a federation that fishes the same species. They in turn allocate portions of the quota to trading companies on a commission basis. The trading companies, having purchased the herring must sell it back to the Federation for processing. This structure serves to set the price of the herring for foreign harvesters.

Leather: The amount of the global quota has never been made public. The quota is allocated only to tanners and wholesalers that are members of a specific organization. There are no quota allocations to end users.

Beef: The beef quota is administered through the Livestock Industry Promotion Corporation. The Ministry of Agriculture and Forestry establishes annual upper and lower stabilization prices for that year for the wholesale price of beef carcasses, which serves to bring the price of imported beef up to the price level of domestic beef.

3. Informal Quantitative Restrictions. In addition to the 27 formal quotas, the Government of Japan imposes informal quantitative restrictions on other imports.

Naptha: Each year Japanese oil refineries are required to submit to MITI their estimates of naptha production for the coming year. MITI limits naptha imports to the amount by which MITI estimates of naptha demand exceed domestic production. Only Japanese oil refineries are permitted to import naptha.

Soda Ash: The purchases of soda ash are directed by MITI through the trading companies, creating a structure that dictates the quantity that U.S. shippers can supply. Specifically, 15,000 tons per year is allowed for each of the five U.S. shippers.

ATTACHMENT A

	BTN Number
Livestock:	
Meat of bovine animals	02.10
Milk and cream (fresh)	04.01
Mild and cream (processed)	04.02
Meat of bovine animals or pigs prepared or preserved in airtight containers	16.02
Marine products:	
Inshore fish and cod roe (fresh)	03.01
Inshore fish and cod roe (salted, etc.)	03.02
Scallops, shellfish and cuttlefish (fresh, salted)	03.03
Edible seaweed	12.08
Fruits and vegetables:	
Oranges and tangerines (fresh)	08.02
Oranges and tangerines (temporarily preserved)	08.11
Fruit puree and fruit pastes	20.05
Pineapples and fruit pulp, canned	20.06
Fruit juices and tomato juice	20.07
Tomato ketchup, tomato sauce, and mixed seasonings	21.04
Sugars and starches:	
Starches and inulin	11.08
Grape sugar, and so forth	17.02
Grain:	
Wheat and rice flour, and so forth	11.01
Wheat and rice groats and meal	11.02
Other agricultural and related foods:	
Small red beans, broad beans and peas	07.05
Ground nuts (except for vegetable oil)	12.01
Tubors of kannyaku (amorphophallus)	12.08
Food preparations containing added sugar, milk, seaweed, wheat, and so forth	21.07
Leather and footwear:	
Bovine cattle leather	41.02
Sheep and lamb skin leather	41.03
Goat and kid skin leather	41.04
Leather footwear, (except sportswear)	64.02
Coal:	
Coal briquettes	27.01

B. Standards, testing, labeling, and certification procedures

One general complaint of U.S. exporters focuses on the fact that Japanese standards tend to be defiined in terms of design specifications rather than performance criteria.

Japanese standard formulation procedures are much less open than ours. United States exporters have not, in the past, had an opportunity to have input during the Japanese standard formulation process. Finally, because U.S. firms are not part of the standard formulation process, they often find out about prospective changes in Japanese standards after their Japanese competitors.

As part of the process of getting a product approved by the Japanese authorities, U.S. exporters claim Japanese ingredient and product formula registration requirements are excessive. For example, Japan is the only country in which producers have to divulge all shampoo, perfume, and cosmetic formulas separately rather than simply providing a list of ingredients.

Japan, like the U.S., has a "positive list" for approved ingredients in processed foods. If a specific additive is not listed as approved for the specific product in question, it may not be imported without getting the Ministry of Health and Welfare (MHW) to approve the ingredient for that particular product. With regard to food products, this approval has not been granted if the MHW determines that there is no "need" for the ingredient in question in the Japanese diet. In any case, the petitioning process is lengthy and complex, and most exporters are discouraged from even attempting it.

With regard to testing procedures, there are general complaints about the lack of transparency in requirements and the time table which can be expected for obtaining product approval.

Japan refuses to accept test data developed outside Japan for many products including pharmaceuticals and medical equipment. Testing is very expensive, as complete samples must be provided. Backlogs in Japan for starting testing on electrical medical products, for example, is up to five or six months. The testing process itself can take another three to four months, and delays of one to two years have been cited in cases of medical equipment products. Finally, certain products such as automobiles, are subject to individual as opposed to type testing, when imported into Japan. Similarly, in the case of high pressure vessels, product approval is not granted until the product actually arrives and is inspected in Japan. Trade barriers would be removed if inspectors from Japan visited and inspected the manufacturing site, or accepted U.S. product approval.

Labeling requirements in Japan constitute another important obstacle to U.S. exports. Processed food importers, for example, are required to open shipments from the U.S. and affix on each item stickers indicating in Japanese the date of importation; the name and address of the importer; the country of origin; the volume of the contents; and the name of the commodity, the main ingredients, additives, preservatives, and colorings.

A non-exhaustive list of standards problems U.S. exporters face is at Attachment B.

C. Purchasing and pricing policies, administrative guidance practices and depressed industry programs

A number of high priority industries receive a greater than average amount of government attention (See Attachment C.)

D. Customs procedures

Industry complaints include extremely narrow interpretation of laws and regulations, and inconsistencies in classification procedures. Many of these have not been verified as across-the-board barriers, as opposed to problems in a specific instance. The most serious problem seems to be the lack of an effective appeals mechanism. Japan may have addressed this problem with its recent appointment of a Trade Ombudsman.

ATTACHMENT B

Product and NTB:

Frozen bull semem.—Excessive certification/testing requirements.

Papayas and cherries.—Product inspection difficulties.

Sake.—Lack of testing procedures for imported sake.

Dried fruit.—Inconsistencies in product additive regulations.

Fresh fruits and vegetables.—Instances of excessively strict plant quarantine regulations.

Wild rice.—Inappropriate product classification in the Japanese tariff schedule.

Concentrated fruit juice.—Excessively strict requirements concerning product packaging.

Processed foods.—Excessive ingredient and product formula disclosure requirements. Lack of transparency in new food additive evaluation procedures.

Medical and scientific instruments.—Excessively strict product testing and certification procedures.

Pharmaceuticals.—Nonacceptance of U.S. testing data.

Cosmetics.—Unreasonable delays in granting approval for minor changes in product formula or product packaging. Excessive ingredient disclosure requirements.

Automobiles.—Strict product testing and certification procedures.

Baseball bats, tennis balls, inflatable athletic balls.—Lack of access to Japanese sporting associations' certification marks (changes are in the process of being implemented).

Telecommunications equipment.—Product qualification evaluation by NTT.

Plywood.—Design as opposed to performance requirements.

Chemical substances.—Nonacceptance of U.S. testing data.

Pressure vessels.—Strict product inspection, testing, and certification requirements; product approval is not granted until arrival in Japan.

ATTACHMENT C

Wheat.—Trade distorting governmental purchasing and resale pricing policies.

Processed tobacco products.—Trade distorting governmental pricing policies. Restrictive retailing regulations. Preference for importing raw tobacco over processed tobacco products.

Lumber.—Preference for importing logs over lumber.

Leather.—Quotas. Preference for importing hides over processed leather.

Nuclear power plants and equipment.—Lack of access to the industry bidding process.

Insurance.—Excessive financial reserve requirements which impede repatriation of earnings to the U.S.

As in the trade area, we are studying the extent to which there are formal and informal barriers to U.S. investment and services in Japan. Our preliminary conclusion in the area of services in that despite significant steps towards liberalization, there remain barriers which result in the Japanese economy being far less open to foreign investment than is the U.S. economy.

There have been allegations that even if all of the above barriers were removed, total U.S. exports to Japan would not substantially increase. We feel, to the contrary, that there are a number of sectors that could potentially increase exports substantially on the basis of price and quality, if the Japanese really open their markets. These range from basic sectors like agriculture and forest products to high technology sectors such as telecommunications and nuclear plants.

ACTIONS TAKEN BY THE JAPANESE GOVERNMENT

We have now been joined by the Japanese Government in our attempt to achieve equivalent market access. In November, Japan agreed to make effective on April 1, 1982 all of the tariff cuts which it had scheduled for implementation under the MTN for fiscal years 1983 and 1984.

In addition, at the request of Prime Minister Suzuki, the Liberal Democratic Party (LDP) established a Committee on International Economic Measures, tasked with breaking down barriers to export opportunities for foreign exports into the Japanese market.

The first result of this group's work was the announcement on January 30, 1982, that 67 actions be implemented to alleviate nontariff barriers, primarily in the customs and standards areas. Mr. Masumi Esaki, the Chairman of this Committee, visited Washington last week to assess the reaction to these actions.

The 67 procedural actions taken by the Japanese to liberalize imports, upon analysis, reflected in our view, largely a compilation of measures that already had been undertaken by various Japanese government agencies, and were very narrowly focused on standards and import procedures.

While we realize that the Japanese have devoted an enormous amount of effort in their endeavor to facilitate market access for the U.S., they have as yet been unwilling to face the hard political decisions that would be necessary to liberalize the many barriers I have enumerated in my testimony.

United States concern about access to Japanese markets has now reached a critical point. We cannot rest until we, together with the Japanese Government, open Japanese markets to the same degree as U.S. markets are open to Japanese exporters.

We realize that no Administration has been successful in opening the Japanese market. We would like the opportunity to try one more time to administer the system properly before resorting to legislation that might have the result of reconstructing the system.

RECIPROCITY

Time and again companies have advised us that their efforts to establish business in Japan or to export to Japan were frustrated simply by the unwillingness of the Japanese to consider their products. This in itself is not evidence of restraint on imports, but when it is accompanied by an insistence or suggestion that the exporter take a Japanese partner, or when it is accompanied by Japanese efforts to obtain the technology behind the product in question, the case for a general bias becomes much stronger. This, in fact, may be the strongest obstacle to market penetration in Japan—the universal feeling by business groups (not the general public) that it is unpatriotic to purchase foreign goods when Japanese goods become available.

This disparity in market access has generated an understandable legislative drive for reciprocity in access to the Japanese market as well as to other markets. Included is your bill, Mr. Chairman, which would amend Section 301 of the 1974 Trade Act to say that failure to provide reciprocal access for U.S. goods and services is grounds for Presidential action. It would also allow the Senate Finance and the House Ways and Means Committees to initiate Section 301 complaints. We are sympathetic to the purpose of the bill and the goal of equivalent market access, and we are supportive of means to achieve this end if they do not contravene our obligations under the General Agreement on Tariffs and Trade (GATT).

Our preference is to achieve a balance of access by having Japan further open its markets. We do not want to see Japanese exports restricted. We believe we benefit in many ways by importing Japanese goods. Similarly, we believe that Japanese consumers would enjoy increased benefits from having greater access to U.S. goods. This is where the concept of reciprocity comes into play.

First, reciprocity should not become a code word for protectionism, but rather should be used to state clearly our insistence on equity. Reciprocity should, generally, mean that the U.S. should seek equal access to other countries' markets to sell those products we produce and export most efficiently, in return for allowing other countries to export to the U.S. market those products they produce most efficiently.

The present international trading system for products is centered in the GATT and based on the principle of most-favored-nation (MFN) treatment. This instrument treats reciprocity in a very general way. With respect to nontariff barriers as well as areas such as investment and services, which are not covered by the GATT, there is some logic in an approach which uses reciprocity as its touchstone. We hope in the GATT Ministerial to encourage the political commitment needed for a work program to establish a regime in services and investment.

The issue then is how to develop and implement a U.S. policy aimed at increasing reciprocity with our trading partners without necessarily tearing down the present international trading system, reversing its benefits to date, or starting a spiral of protectionism actions. This should, in my opinion, be central in our consideration of the many pieces of reciprocity legislation—both general and sector-specific—which are presently pending in the Congress.

Mr. MACDONALD. I would simply conclude by saying this: There are numerous Government-induced or authorized trade barriers that run throughout the fabric of Japanese society and the degree to which our companies could benefit from the removal of these barriers if they can be removed, contrary to what some people say, including Americans, we believe to be in the billions of dollars.

That is to say that we believe that American exports would rise, over time admittedly, several billion dollars, if indeed the Japanese market could be made as free as our own.

What I perceive in my discussions with the Japanese Government officials with whom we deal—and I will be leaving on Saturday morning for our second attempt—what I perceive in the Japanese market is that there is an implicit understanding in Japan that if any surge of exports could result in the shift of burden of unemployment into the Japanese economy it will not at present be allowed. One way or another, it will be stopped at the border.

Now when we have brought to the attention of the Government of Japan these matters, up to this point, their response has been such that you can only conclude that they are asking us to restrain their exports to the United States. Why do I say that? Take an example, beef. The day we arrived in Japan last December, the Ministry of Agriculture announced that there was a surplus of beef and that therefore the beef quota would have to be restricted by another 4,000 tons. Otherwise, there would be unemployment in Japan.

Now if that kind of logic is to be carried out to its extreme, it also applies to American automobiles. There is a surplus of automobiles in the United States which has caused material, substantial unemployment. Tobacco, when we raise the tobacco issue, the fact is that there are a number of Japanese tobacco leaf growers—the Japanese tobacco and salt monopoly corporation includes about 30 percent of that leaf in Japanese made cigarettes. For it to move over and let American cigarettes come in would be an admission that there would have to be an unemployment adjustment problem to be faced by the Japanese.

This is explained to us not as a difficulty which can be jointly overcome, but thus far as a kind of complete response to our requests.

This is the essential problem as we see it.

ADJUSTMENT POLICY

Senator **Heinz**. What you're saying is the Japanese have no policy on adjustment?

Mr. **Macdonald**. They have an extremely good policy on adjustment. This policy, for example ——

Senator **Heinz**. That's the other way of looking at it.

Mr. **Macdonald**. Their idea is that when the aluminum industry gets in trouble, which it is, and it only has 13,000 employees—compare that with the automobile industry—they form a recession cartel. One way or another they will keep imports of aluminum out while they steadily and systematically restructure the industry down. They are trying now to bring it down to 7,000 people. At the same time, they tend to move out productive capacities into Japanese-owned facilities outside Japan. That is their unemployment policy—unemployment adjustment.

It may be better than ours. The only trouble is that when you superimpose it on their obligations under the GATT, we feel that it fails to meet those obligations.

Senator **Heinz**. What you have just described doesn't permit competitive forces to have any direct effect on adjustment.

Mr. **Macdonald**. Everything is overstated. Every generalization is overstated. They run their competition, as nearly as I can see—and Lionel might want to comment on this—they run their competition much the way the National Baseball League runs its competition. Everybody competes for first place, but it's within very clear rules. They are not about to let the San Antonio team into the league. That is I think the closest analogy that I can quickly give.

Senator **Heinz**. Ambassador Macdonald, does that complete your statement?

Mr. **Macdonald**. Yes, it does.

Senator **Heinz**. I'd like to recognize Senator Chafee for an opening statement.

STATEMENT OF JOHN H. CHAFEE, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator **Chafee**. Thank you, Mr. Chairman. We are involved with a markup in the Environment and Public Works Committee so, unfortunately, I could not be here and will have to leave, and I do have a statement, Mr. Chairman, that I would like to submit for the record.

Senator **Heinz**. Without objection, it will be made part of the record.

[Complete statement follows as though read:]

Senator **Chafee**. Thank you, Mr. Chairman. I believe that this hearing is very timely, in light of Ambassador Macdonald's upcoming meetings with the Japanese. It is my hope that we will be able to make some real progress in convincing the Japanese to make some genuine concessions rather than merely agreements to negotiate.

As the subcommittee members are probably aware, I traveled to Japan with Senator Danforth in early January of this year. I came back with a heightened awareness of the extent to which the Japanese market is closed to American goods. However, I also returned with the conviction that our trade imbalance with Japan is not due solely to the closed nature of their market, but it is also due to poor management on our part and a failure to take real steps to encourage growth and productivity.

Thus, I believe that our goal should be to take steps at home to change the focus and methods of corporate management, and at the same time to urge the Japanese to allow our products to compete on an equal basis with their own. This is the essence of national treatment, and that should be the centerpiece of our negotiating strategy.

The administration has said that it favors the idea of global reciprocity. I am not sure what that means and would like to hear Ambassador Macdonald's views on that issue. If it means pursuing our right to national treatment by enforcing our rights under the GATT with respect to trade in goods and pursuing international agreements which extend that principle to trade in services and investment, then I support the notion of global reciprocity.

I noted in reading Ambassador Macdonald's testimony that it lists various examples of trade barriers in areas such as purchasing and pricing policies and tariffs. I also noticed that there was no mention of jewelry in the list of products given as examples. The jewelry industry provides approximately one-third of the manufacturing jobs in my home State. Therefore, I am particularly concerned with the problems it faces in trying to export its products to Japan. I would like to add jewelry to that list. For 1980, U.S. exports to Japan of jewelry and related products totaled nearly $15 million, which was a decline of $1 million from 1979. At the same time, U.S. imports of jewelry from Japan totaled $110.5 million in 1980, which was an increase of $31 million from the previous year.

Thus, in 1980, our trade deficit with Japan in precious and costume jewelry totaled $95 million. The Manufacturing Jeweler's & Silversmith's Association is currently involved in a project to expand jewelry exports worldwide. As part of this program, they are particularly interested in entering the Japanese market to a greater degree. However, they have encountered problems due to high rates of duty ranging from 10.8 percent ad valorem to 17.1 percent ad valorem. These rates are much higher than the U.S. rates of duty on comparable products. The second category of problems that the jewelry manufacturers have encountered is in the distribution of their products.

Ambassador Macdonald, I would be happy to supply you with additional information on the specific problems encountered by the U.S. jewelry industry in trying to enter the Japanese market.

Mr. MACDONALD. Thank you, Senator Chafee. We will get together with your staff.

Senator CHAFEE. Thank you. When exactly are you leaving?

Mr. MACDONALD. Saturday morning.

Senator CHAFEE. Well, don't worry. We'll get with you. Thank you.

Thank you, Mr. Chairman.

Senator HEINZ. Senator Chafee, I thank you and I appreciate your involvement in this issue and I'm well aware of how important those manufacturing jobs in the jewelry industry are in Rhode

Island. As you say, it's one-third of your total employment in that State.

Senator **Chafee**. Thank you.

USE QUOTAS AS RECIPROCITY

Senator **Heinz**. I want to return to something Ambassador Macdonald said, which is that you have concluded that what the Japanese, in effect, are really asking us to do is in some way, shape, or form to agree upon with them or to impose upon them quotas as the solution to this problem, which in a sense is reciprocity. Because what the Japanese are doing, as you and Secretary Olmer have described, is they keep everybody else out, and the fair way they want us to handle that problem, if I understand you correctly, is for us to keep them out, which obviously is the opposite of everything we believe in when it comes to a free world trading system. Is that correct?

Mr. **Macdonald**. That is the logical outcome of the position that they take but we refuse to believe them. We refuse to listen to that because it is so contrary to the trading system that we have built up since 1947.

Senator **Heinz**. I find that ironic. That's not the kind of Golden Rule that I think most of us really have in mind here.

Mr. **Macdonald**. No; it isn't.

Senator **Heinz**. Let me return to Lionel Olmer for a moment. Lionel, you mentioned that you felt that the Esaki mission had not been successful, that it had failed. Why? Would you enlarge upon that?

Mr. **Olmer**. Well, one must look at the objectives which Chairman Esaki laid out for himself which are yet somewhat obscure to us. My assumption has been that he came here to determine the effect in the United States on the announced drastic measures and, second, to determine if the trade problem in the United States as perceived in the United States was serious.

He was not prepared to deal with us in terms of solutions to that trade problem, but if success were to be measured by whether he got the message, then it was successful. But we got no greater assurance than that out of that mission.

In other words, in several discussions when we would lay out our case, one or more members of the Esaki mission would reach into a briefcase and pull out large volumes of data to deal with us on a selective issue or other rather than to discuss in a more general basis what I believe and what the administration believes is a pervasive problem of market access generally.

Senator **Heinz**. This will sound like an obvious question to many and to a certain extent it's already been addressed, but I think I'd best ask it for the record.

You mentioned the various proportions of gross national product in your statement, that Western Europe or this country or Japan had allowed to be claimed by imports. While I think that that represents a rather prima facie case that something is going on in Japan that is not going on any place else, nonetheless, is it your opinion that the rest of the developed countries are for some reason lacking in the ability, including ourselves—lacking the ability to compete in Japan across the board when it comes to our basic technology, aggressiveness to sell, comparative advantage, what have you?

Mr. **Olmer**. Measured by most criteria of competitiveness—you have outlined many of them—I think there are even some additional ones—I think the answer has to be that the United States and the Western world at large would be prepared to succeed in Japan in a number of different areas if it were allowed to.

The United States actually does far better than most other countries. We have a 34-percent market share of Japan's importation of manufactured goods. That's not bad.

The problem is that Japan, with an economy one-tenth the size of Switzerland—roughly Japan's GNP is $1 trillion and Switzerland's is $1 billion—the Japanese import the same absolute quantity of manufactured goods, which is roughly $28 or $29 billion.

The problem is simply that manufactured goods from foreign countries do not arrive for admission and for the opportunity to compete fairly.

Senator **Heinz**. In your opinion, what must the Japanese do to open their market and would you or would you not agree that we are talking about a great deal more than the initiatives like the so-called 67 steps which many believe is just kind of a patina, a thin gruel masquerading as beef stew?

Mr. **Olmer**. It was perceived as such by the Japanese diplomats as smoke, as an initial effort to deal with a tactical problem. Far more needs to be done of a very fundamental character and, as I've indicated earlier, I'm not yet convinced that there is a willingness to—well, I believe there is a commitment at the top, but I'm not convinced that there is a commitment to see throughout the bureaucracy a putting of the shoulder to the wheel on the implementation of change which is necessary if we're going to restructure the trade imbalance.

I'm not convinced that that is going to happen in any near-term period of time.

Mr. **Macdonald**. Mr. Chairman, if I could just comment on that briefly, we do have a few assets in Japan. One is that their consuming public is willing to buy foreign, unlike their business community. If we can get through to their consuming public, we are in fairly good shape.

TRADE OMBUDSMAN

Moreover, I think the political leadership is coming around now but their problem with their bureaucracy is probably 10 times as bad as our problems with our own bureaucracy. In this sense, to try to meet this, they appointed a trade ombudsman. I don't denegrate that effort. I think that may be a very real, positive step. It's hard to say. We'll have to watch it in operation.

But in order to take advantage of that situation in the context of the way the Japanese economy works, as I see it, we're going to have to have somebody flying over to Japan just about every month to visit with the trade ombudsman taking with them the portfolio of American export problems in the Japanese economy.

Senator HEINZ. Just pursuing this a moment, last night on the MacNeil-Lehrer report, you, Mr. Olmer, and Mr. Amaya were the stars.

Mr. OLMER. Well, we were the only ones there.

Senator HEINZ. That's why you were the stars. Mr. Amaya I believe is a former Japanese trade official and as I understand it, in the course of the discussion, Mr. Amaya explained how the Japanese Government does plan to appoint a trade ombudsman who he said, as I have been told, will be able to resolve most remaining trade frictions—most remaining trade frictions with the United States within a period of 10 days.

Now you have just said, Mr. Macdonald, that you think this is a sincere step, and indeed it may be, but when somebody who purports to speak with some authority on behalf of Japan says that these problems are all going to be resolved within 10 days, nobody believes that any more than we believe the Moon is made out of green cheese and has a Camembert center.

The fact is that statements like that just bring total cynicism in the United States about anything that the Japanese say they are going to do. That is literally an incredible statement and I would like to know from you if you are so optimistic here, how you square it, either of you, with this kind of statement which is totally—it shames Madison Avenue in comparison with its dedication to the big oversell.

Mr. MACDONALD. Let me come to former Vice Minister Amaya's defense, Mr. Chairman. He's a very sophisticated individual who is not new to the United States. He has in our experience been a liberalizing force for trade with Japan. I just cannot believe but that something did not get lost in the translation there because I just——

Senator HEINZ. Maybe Mr. Olmer will want to give Mr. Amaya an opportunity to recant.

Mr. MACDONALD. I would like to give him a second chance before we read too much into that.

Mr. OLMER. He was also asked if he was under consideration as the candidate for the MITI representative in Washington to which consideration is being given, and he just indicated that he may be under consideration but no decision has been made. I think that you have put a correct patina of cynicism on his very optimistic forecast, but Dave is right, Mr. Amaya is a very sophisticated man, well experienced in international trade negotiations, and I might say that he's been characterized to me as representative of a hero in the true Japanese tradition because it was Mr. Amaya in his official capacity as Vice Minister a year ago who took unto himself responsibility for the dealing with the Japanese automotive manufacturers and getting them to voluntarily restrain, to their everlasting enmity toward him personally, and I believe he did that in the belief that it was in the best interests of Japan and the United States, whose friend he is.

Senator HEINZ. Let's return to what might be an effect if the Japanese market became truly open. In your estimate, Secretary Olmer, in the event of a genuine removal of barriers to trade, what would be the effect on the U.S. trade balance with Japan, which we currently look at as being in the high teens for 1981 and the 20's for calendar 1982?

Mr. **Olmer**. Well, if we reach the conclusion that the reason that Japan's importation of manufactured goods as a percentage of GNP has gone down in the last few years—the reason for that phenomenon is restraining to competition and closure of market forces, then—and said that that phenomenon was removed, that Japan's share of manufactured imports as a function of GNP grew as others have grown, we would have sold roughly $12 to $14 billion more goods to Japan in 1980.

That does not mean that today, if on hearing results of this testimony, all barriers to imports were removed, that we would tomorrow be capable of responding accordingly. I think, as David pointed out, it will take a period of time to gear up our manufacturing forces in this country to properly compete and succeed.

The fact is that old habits die very, very hard and it will take us time to increase substantially the amount of manufactured goods exports from the United States to Japan.

TARGETING AN INDUSTRY

Senator **Heinz**. You have pointed out, as have others— notably Ambassador Brock—the Japanese practice of targeting an industry. Invariably, it seems to be one in which the United States is a leader at that time. And then working to undermine that lead through protecting the new industry while it's in its infancy and then turning it loose on the world market when it's stronger than competition and only then demanding that there be free and open trade in that industry. That's been the pattern in automobiles, watches, and so forth.

It now appears it will be a pattern with the latest round of industries targeted by the Japanese. I refer to genetic engineering, software, aviation and so forth.

The problem is that the Japanese don't seem to be willing to permit open competition on the entry level, yet that is where most competitive and comparative advantages are formed.

My question is, since this is clearly very dangerous for industries crucial for our national security, among other things, how do we get at that form of protectionism which I believe is the most serious problem? How do we address it?

Mr. **Olmer**. I think, Mr. Chairman, you have put your finger on the most serious component part of our trading problem with Japan, that of the targeted industry concept.

You're absolutely right. In the early 1970's, the Japanese calculated that the world of computers, semiconductors and telecommunications were the wave of the future, the so-called information age, and they had a law at that time called the infant industries law. It was, I believe Public Law 17, and I can recall the great difficulty after searching what that law was and actually obtaining a copy and having it translated, which I finally did, but I learned that that law had just expired and was told that it had expired having served its purpose, only to have been renewed 1 year later. It did protect industries in Japan. It did create a research and development facility from which more than a thousand patents were issued in the most esoteric and sophisticated technology known to man.

The fruits of that effort are now being reaped by the Japanese to the great disadvantage of American companies such that I'm not even sure that we can rely on information from American industries regarding what is in their best interest because oftentimes they are dependent in whole or in part on the importation from Japan of substantial quantities of component parts made only in Japan which go into the manufacture of end products.

How we deal with that is a very, very difficult matter. I'm not actually sure in my own mind. It may strike at some basic concepts of fair trade and open trade that we have had in this country for more than a generation.

I do know I see on the horizon a new kind of concern and that is that by the Japanese success in the past they telegraph an unspoken message to American innovators to stay out of my turf because I will develop it and you won't be able to compete because I will continually drive the price down until, in the absence of profits, you're forced to get out.

I see that phenomenon developing in the area of semiconductors and semiconductors, as you well know, are the feedstock of the computer and telecommunications industry. It's very worrisome. We're trying to deal with it in the administration through a series of studies. I'm the first to say that study isn't going to restructure Japan's way of looking at this information age. It's not a satisfactory answer to that.

ECONOMIC COLONIALISM

Senator HEINZ. You know what is really happening is this: the main thing that we export to Japan are basically raw materials. We get back from them, sometimes as just noted as a sole source supplier, manufactured goods. We are a market which is—we are exclusively a market except insofar as the largely exported raw materials are concerned. I'm struck by the parallel with the developed nations of the 19th century that is implied there. What you have just described is economic colonialism where they take from the United States and others some raw materials, do what they do, protect, and then say, "And now if you want to buy something and we are ready to sell it to you, here it comes." And they have a system that, in effect, forces through the practices you have just described that kind of condition of dependency on the rest of the world, not just us. You have just described a latter day form of economic colonialism. Would you agree?

Mr. OLMER. Well, I believe one of Ambassador Brock's predecessors, in his official capacities a few years ago, described the relationship between Japan and the United States something as follows: The United States has become a developing country with respect to Japan in exports of raw materials and commodities and they receive manufactured goods. This just bears that out.

Senator HEINZ. Now let's get back to what we ought to do about it. Do you believe that additional tools are needed for the President or the U.S. Trade Representative in particular to deal with this issue or do you, Mr. Macdonald, have all the persuasive arguments backed up by additional authorities that you need?

Mr. MACDONALD. I think Ambassador Brock will testify in detail on that issue during I believe the Senate Finance Trade Subcommittee.

Senator HEINZ. That's on March 24?

Mr. MACDONALD. March 25. Generally, I don't think I would be misstating his position generally if I said that we feel that in those areas where the GATT is not applicable—that is to say the area of services and investment—we could stand some tools to build a new set of rules, perhaps not quite in the same way that the rules of the GATT have been built in the past.

Senator HEINZ. Would you like to see those kinds of rules, however, structured basically along the lines of our existing 301, unfair trade practices procedures?

Mr. MACDONALD. I can't speak for Ambassador Brock, so you put me in a tough position, and I can't even speak for the administration. But I think, just as a personal prediction, it would be my prediction that Ambassador Brock would look favorably, and the administration will look favorably—Secretary Baldrige—on the applicability of 301 to the services and investment field in a much more detailed way.

Senator HEINZ. May I ask, Secretary Olmer, if that would be a view shared by the Department of Commerce, even though the Department of Commerce is not charged with negotiating these kinds of issues?

Mr. OLMER. Secretary Baldrige has testified previously as to his preference that the area of trade negotiations not be structured in such a way as to limit the latitude of the negotiator, he believes it far preferable to legislate reciprocity.

Senator HEINZ. You're talking about the mirror image?

Mr. OLMER. Yes. It would be preferable to give the trade negotiator the tools that the trade negotiator feels are adequate to deal with the problem that we all agree exists, and that the hazard to sending the wrong signals to many of our trading partners, were we to pass mirror image reciprocity, and the difficulty of defining what reciprocity means and how it could be applies is such to warn us off.

Senator HEINZ. But you're basically agreeing with what Mr. Macdonald just said?

Mr. OLMER. Yes.

Senator HEINZ. I have one last question which I address to Mr. Macdonald, and it concerns a specific instance here. I'd ask, first, if you're familiar with the growing problem of nonreciprocal access involving the U.S. sale of pagers, those little devices that let us know at the most important time, when you're deeply engaged in something you can't break away from, that somebody else wants us to break away to—U.S. sales in Japan compared to Japanese sales here.

Mr. MACDONALD. Mr. Chairman, I'm quite familiar with that problem.

DUMPING

Senator **Heinz**. It's my understanding that there have been a lot of efforts to sell there and after 2 years of effort we have sold about 45,000, after 2 years, to Japan, but that in one month last year a Japanese company sold 30,000 here at a price about one-half the U.S. price and about one-half the price of the comparable product in Japan. Are you considering initiating an antidumping case against the Japanese on this matter?

Mr. **Macdonald**. Well, the jurisdiction over dumping is over in the Commerce Department and I don't want to prejudge the situation. It's somewhat dangerous to do so.

It does, however, if the facts are as we now understand them to be, barring something that we don't know about—it does indeed look as though there could well be a question of sales at less than fair value which, of course, would bring our fair trade clause into question.

Senator **Heinz**. If in fact the Japanese are selling the same pager here at half the price they are selling the same pager, Japanese made in both cases, in Japan, I would think that is a prima facie case of dumping.

Mr. **Macdonald**. That's one of the two legs upon which a dumping finding stands, sales at less than fair value followed by an ITC determination of injury.

Senator **Heinz**. That's correct. I wasn't addressing the injury question, just the question of dumping. It does have to be injurious as we both know. As I understand it, there is a very small number of buyers in this country of pagers representing most of the market and therefore you can quickly get to the situation where within a few months all that market has been successfully taken over and the U.S. manufacturers are gone and there's no injury any more. Why? Because there's nobody to injure. They have been decimated to the point of annihilation at which point you can't prove injury.

So my question is, is there any thought to doing something such as raising the duty on pagers as an immediate way of getting at that problem, even if that should involve compensation?

Mr. **Macdonald**. The dumping law, as I understand it, does provide that if a complaint is filed—and I think it's the policy of the U.S. Government and has been for a long time to entertain complaints, normally only after they are brought to their attention by a private party—but assuming a complaint is filed, they have the power to suspend liquidation or withhold appraisment from the date of the filing of the complaint so that everything after that could—the duty on all imports after that, would be held in abeyance until a final determination has been made whether dumping has occurred or not.

Senator **Heinz**. Well, do you intend to raise that issue on your trip that you start out on this Saturday?

Mr. **Macdonald**. We do.

Senator **Heinz**. You do?

Mr. **Macdonald**. Absolutely.

Senator **Heinz**. Let me encourage you even more.

Are there any closing comments either of you would have?

Mr. Olmer. Mr. Chairman, I feel constrained to state for the record that as a former official of a leading electronics company engaged in the manufacture and sale of pagers, both in the United States and Japan, and as a Government official now charged with administering our antidumping and duty laws, I have recused myself from consideration of any issue which may be brought before the Commerce Department on that particular matter. To the best of my knowledge and belief, it has not yet been so brought to our attention as a formal complaint, although I have heard some rumors to the effect that it may be. I have made provision in that eventuality to have other officials deal directly with the information concerned and with the Secretary.

Senator Heinz. I think what you're doing is both necessary and proper. That's exactly what you should do and I'm glad you put that on the record so that there is no doubt about it, Mr. Secretary. Thank you.

Mr. Macdonald. I would just like to say, Mr. Chairman, sometimes it does behoove us to restate the obvious, and we talk a lot about a lot of problems that we have with the Japanese. Sometimes it's good to indicate what are not the problems because otherwise attention begins to get diverted away into unproductive areas.

We believe that, by and large, the United States has benefited from Japanese imports, that it has enriched the quality of our life. They are quality products, by and large, and they are normally well priced. As long as they are fairly imported, we have no objection to those. Moreover, we are not asking for something from Japan to which we don't think we are entitled. We are not asking them to give us a favor. We are asking for what we believe we are entitled to under their international obligations.

This means that there are American industries that are unable to compete with Japanese industries in Japan. We are not arguing that everyone can export to Japan. There are, however, a broad segment of areas where we are quite competitive and more than competitive, and it is in those areas where we think the progress has to be made.

Thank you, Mr. Chairman, for having us here.

Senator Heinz. Mr. Ambassador, thank you. Secretary Olmer, thank you very much. We appreciate you being here.

Our next set of witnesses is Bernard Conor, corporate vice president, AMF, Inc.; accompanied by Howard J. Bruns, president, Sporting Goods Manufacturers Association; Ron P. Davis, executive vice president, Colonial Beef Co.; and John Sodolski, vice president, Electronic Industries Association.

Mr. Conor, we would ask you to proceed if you would.

STATEMENT OF BERNARD E. CONOR, CORPORATE VICE PRESIDENT, AMF INC.; PRESIDENT, AMF INTERNATIONAL TRADE OPERATIONS, ACCOMPANIED BY HOWARD J. BRUNS, PRESIDENT, SPORTING GOODS MANUFACTURERS ASSOCIATION

Mr. Conor. Thank you, Mr. Chairman.

I am Bernard Conor, vice president of AMF, Inc. and President of AMF International Trade Operations. I am speaking here today on behalf of the Sporting Goods Manufacturing Association and my company, AMF, Inc.

We have been exporting and trading with Japan for the past 25 years. I would first like to refute the Japanese argument that American companies do not try to sell in Japan. We have had some very good business successes in Japan and have exported to that country hundreds of millions of dollars worth of manufactured goods. In almost every case our success has been due to the fact that there was not a Japanese competitor or there was not an entrenched trade organization or an established distribution system. These are serious barriers to any business selling in Japan.

Three years ago, we launched a major export drive to build more jobs for America and to help the U.S. balance of payments. It has been very successful. We have increased our exports from 7 to 15 percent. As we tried to expand with additional products, we found that in Japan we were totally blocked, and that is the purpose of my testimony today.

BARRIERS ENCOUNTERED

The first group of items that we have been working on for the last few years has been inflated balls made by our AMF Voit plant in Santa Ana, Calif. We tried exporting these through our own offices in Japan, to distributors we work with on a regular basis, and it has been impossible for them to sell our goods because of the barriers in Japan.

The problem is that there are local Japanese associations in the sporting goods industry which have committees made up primarily of manufacturers, our competitors, who decide which balls will be approved. To date, they have never approved any ball except a Japanese-made ball.

I'd like to quote from a letter from one of our distributors, a Japanese businessman who is trying to sell these balls in Japan. He says:

> Needless to say, it seems totally unfair that any foreign-made ball is discriminated imprudently, while Japanese products are driven into the U.S. market. Therefore, in order to force Japanese athletic associations to change their policy in sanctioning the official ball, it would definitely be effective if someone with a high official position in the U.S. Government would raise the question about this typical nontariff barrier treatment against foreign-made products to our Government. Thus, I feel that AMF's political approach is required for the successful obtainment of the Association's sanction for AMF balls in the Japanese marketplace.

In essence, gentlemen, our potential customers in Japan are asking help from the U.S. Government to permit them to buy American products in Japan.

AMF has made extensive market surveys in Japan on the size of the Japanese inflatable ball market from which we, and all foreign manufacturers, are excluded.

In 1980, there were 2.5 million basketballs, volleyballs, soccer balls and footballs sold in Japan. In other words, there are customers, as mentioned earlier, but we are not allowed to service them. We have conducted a number of surveys on this in Japan. We found the market was about $20 million and that was totally supplied by Japanese manufacturers. And yet the major Japanese manufacturers sold in the U.S. $4.5 million worth of products and we cannot touch their market. We think this is totally unfair and certainly it isn't under the category of fair and free trade.

Another trade barrier which we have recently encountered as we expanded our efforts in Japan involved gymnasium equipment. Our American Athletic Division, located in Jefferson, Iowa, is one of the major suppliers of gymnasium equipment in the world, and its equipment is well accepted around the world. It was recently used in the World Championship Games, and recently was selected for use in the 1984 Olympics in Los Angeles. Yet AMF is not allowed to sell this gymnastic equipment in Japan. We have worked very hard within our own organization and with a well-respected Japanese distributor to overcome this unwarranted situation. I have a recent telex from the Japanese distributor which states:

> As you know, it is necessary for us to get official approval from the Japan Gymnastic Association to distribute your gym equipment in Japan. We are required to manufacture it in our own plant to get approval.

In other words, the only way we can sell our equipment in Japan is to license someone in Japan to make the equipment, which cost American working people jobs, increases product costs and reduces our worldwide competitive position.

It is important to note that in both of these examples there are people who would like to buy our products and there are major companies interested in distributing them, but they are not permitted to do so because of structural Japanese nontariff barriers.

In addition, there are other barriers to our power boats and yachts, produced by our Marine Division in North Carolina. These products cannot be shipped to Japan because of design parameters which effectively exclude American-made boats from that market, even though these boats are widely accepted throughout the world.

Gentlemen, these are clearcut cases particularly with inflated balls, where action needs to be taken to permit us to gain market access. As noted in the attached letter to Secretary of Commerce Malcolm Baldrige, we suggested to a group of Japanese business executives that if they did not remove their barriers, we would like to set up similar sanctioning committees in the U.S.A., copied exactly after the Japanese Committees, which would allow a group of American manufacturers to determine which Japanese balls were permitted to be imported into the United States. Needless to say, they thought this was a terrible idea. They didn't want us to copy them.

Leaving aside our specific AMF problems, I'd like to address those of the members of the Sporting Goods Manufacturers Association of which Mr. Bruns is the president.

PRESSURE APPLIED

The Penn Athletic Co. in Pennsylvania, a leading manufacturer of tennis balls in the world, has not been able to sell its balls in Japan. But due to tremendous pressure applied to the Japanese, both because of the baseball bat situation and due to high level meetings of the MITI in Japan—even Secretary of State Alexander Haig was involved, plus a very strong article in the New York Times which embarrassed the Japanese—they said they were going to open their markets for these products.

Senator Heinz. Have we sold any tennis balls there yet?

Mr. Conor. Not a single one.

Senator Heinz. When was that announcement made?

Mr. Conor. The announcement was made to us, as I recall in November.

Senator Heinz. Let's just talk about tennis balls for a minute.

Mr. Conor. Yes.

Senator Heinz. The decision was announced in November. It's now March. Now how long does it take a ship to go from the west coast to Japan, a couple of weeks?

Mr. Conor. I will let Howard Bruns answer that.

Mr. Bruns. I will answer that question Senator. It was announced in November that the Japanese Tennis League would change its bylaws to permit American tennis balls into Japan. As yet, they have not rewritten the bylaws but we understand they are in the process of doing it.

Senator Heinz. They are doing a very careful and thorough job?

Mr. Bruns. A very thorough analysis, Senator, yes, and if they do, it may take some time for the first tennis ball to be shipped into Japan; some time meaning a year or two.

Senator Heinz. So we're not exactly putting crates of tennis balls on the dock and ready to wish them bon voyage, are we?

Mr. Bruns. We have solved the problems in words, but not in fact.

Senator Heinz. Thank you, Mr. Bruns.

Mr. Conor, continue, please.

Mr. Conor. And the same thing is true with baseball bats. U.S. manufacturers have received the specifications. They appear to be outdated specifications from what they know so far. How long it will be before we have the bats tested in Japan and the first batch shipped is anybody's guess at this moment. We really have to wait and see and we intend to monitor this extremely carefully.

Senator Heinz. Mr. Conor, I hate to interrupt you so many times, but at one point, as I recollect, the main source of aluminum baseball bats in Japan was the United States.

Mr. Conor. That's correct.

Senator Heinz. This challenged the business people in Japan and they produced some bats—as I recollect the story, they did not produce them as well. Indeed, I recollect because they were of inferior design or manufacture, the rubber plug at the bottom of the bat which allows you to grip the bat firmly came undone on a couple Japanese bats and the bat flew off and hit some people. As a result of which a new code was established in Japan that had the effect of saying, well, we're not going to permit this kind of unfair foreign competition of superior products with inferior products, and the situation is today as you described—what used to be a total American market for a superior product, presumably at a competitive price, isn't any more.

Mr. Conor. It's completely out; that's correct.

Senator Heinz. Is my recollection of that correct?

Mr. Conor. That is correct.

Mr. Bruns. Precisely. They looked for an opportunity to restrict trade and they found it.

Senator Heinz. Please proceed.

Mr. Conor. We would like to just mention one other problem which surfaced recently. We have been trying to display sporting goods in Japan at trade shows. We recently received the following telex from the American Consulate Office in Japan: "Foreign firms are prevented from participating in the four major sporting goods trade shows in Japan—the two Osaka Sporting Goods Wholesalers' Association shows and the two Tokyo Sporting Goods Wholesalers' Association shows."

In December, our embassy informed us informally that the Osaka Association decided not to allow foreign firms to participate in Japan to preserve their small and medium sized sporting goods manufacturers. Senator, we don't know who's preserving the American manufacturers.

There is a very important point that I think all manufacturers would like you to consider. When we are restricted from selling in Japan and the Japanese are free to compete in our markets here, this practice reduces our volume which in turn produces increased costs that make our manufacturers less competitive. The key point is that it's not only the business we lose in Japan, but due to these elements we become less competitive in the total world market. So it's very difficult to judge the total impact on our industries. It's a very serious problem.

I believe here today we have outlined many instances where legislation may have to be passed to open up these markets. We do need help. It's unfortunate that legislation has to be considered, but since the Japanese do not seem willing to eliminate their protectionist measures, we may have to do this to gain market access. We are free traders. We believe in free trade, but we also believe more than anything, in fair trade for the world.

Senator, we at AMF have great respect for the Japanese business leaders who have cooperated with us through the years in both supplying us with products and in selling our products. All we ask is that these Japanese trade barriers be removed so that we can have free and fair trade. It must be a two-way street, not "fair" on one side, the Japanese.

We appreciate your attention to these matters but I also would like to point out that these barriers are not limited to Japan. We also have serious problems in Brazil, Taiwan, and Korea, to mention a few other countries where we are restricted in selling our products.

In conclusion, I would also like to submit for the record a further written statement from Mr. Bruns, president of the Sporting Goods Manufacturers Association. We are prepared to answer any questions you may have.

Senator Heinz. Mr. Conor and Mr. Bruns, without objection, your statements will be a part of the record.

[Complete statements follow:]

TESTIMONY BY BERNARD E. CONOR, CORPORATE VICE PRESIDENT, AMF, INC. AND PRESIDENT, AMF INTERNATIONAL TRADE OPERATIONS

Mr. Chairman, I am speaking here today, on behalf of the Sporting Goods Manufacturers Association and my company, AMF, INC., a $1.3 billion operation, exporting and trading with Japan for the past 25 years.

We have had some very good successes in Japan, and have exported to that country hundreds of millions of dollars of goods. In almost every case, our success has been due to the fact that there was not a Japanese competitor, or there was not an entrenched trade associdation or similar unit, or an established distribution system.

Three years ago, AMF established the International Trade Operations to make a major export drive. This drive has been extremely successful in doubling our U.S. exports from approximately 7 per cent to 15 per cent. To continue to expand this export drive, to build jobs in America and to help our balance of payments, it has become necessary to make a major effort to export additional items. This has proven difficult due to the non-tariff trade barriers in Japan.

The specific problems that AMF would like to address today are our attempts in the past two years to export a number of other items to Japan. In these efforts, we find ourselves totally blocked.

The first group of items is the inflated balls: basketballs, volleyballs, soccer balls, and American footballs, produced by AMF VOIT, at its plant in Santa Ana, California. Working both through AMF's Offices in Japan and through highly-respected Japanese distribution organizations, with whom we have dealt extensively through the years, we have been completely stopped from exporting these products. The problem is that these local Japanese associations which must approve balls for play in Japan, are made up primarily of Japanese manufacturers, who are our competitors, and who decide which balls will be approved. To date, these Associations have never approved any ball except a Japanese-made ball.

Let me quote from a recent communication from a major Japanese corporation who wants to distribute our inflated balls. It says:

"Needless to say, it seems totally unfair that any foreign made ball is discriminated impertinently, while Japanese products are driven into the U.S. market. Therefore, in order to force Japanese athletic associations to change their policy, in sanctioning the official ball, it would definitely be effective, if someone with a high official position in the U.S. government would raise the question about this 'typical' non-tariff barrier treatment against foreign made products to our government. Thus, I feel that AMF's political approach is required for the successful obtainment of the Association's sanction for AMF balls in the Japanese marketplace."

In essence, gentlemen, our potential customers in Japan, are asking help from the U.S. government to permit them to buy American products in Japan.

AMF has made extensive market surveys in Japan on the size of the Japanese inflatable ball market, from which we, and all foreign manufacturers, are excluded.

In 1980, there were 2.5 million basketballs, volleyballs, soccer balls and footballs sold in Japan for a wholesale value of approximately $20 million, all supplied by local Japanese manufacturers. At the same time, the major Japanese manufacturers, like Tachikara, Mikassa and Molten, exported $4,341,421 in balls to the United States in 1981, a 35 per cent increase over 1980.

AMF thinks such treatment is totally unfair. We firmly believe these actions cannot be considered under the category of 'free and fair' trade.

Another trade barrier we have encountered is with gymnasium equipment. The AMF American Athletic Division, located in Jefferson, Iowa, is one of the major suppliers of gymnasium equipment in the world, and its equipment is well-accepted around the world. It was recently used in the World Championship Games, and has also been selected for use in the 1984 Olympics in Los Angeles. Yet, AMF is not allowed to sell this gymnastic equipment in Japan. We have worked very hard within our own organization and with a well-respected Japanese distributor to overcome this unwarranted situation. Last week, we had the following telex from the Japanese distributor:

"As you know, it is necessary for us to get official approval from the Japan Gymnastic Association to distribute your gym equipment in Japan. We are required to manufacture in our own plant to get approval."

In other words, the only way we can sell our equipment in Japan, Senators, is to license somebody in Japan to make this equipment, costing American working people jobs, increased cost and a reduction in our worldwide competitive position.

It is important to note that in both of these examples, there are people who would like to buy our products, and there are major companies interested in distributing them; but they are not permitted to do so because of structural Japanese non-tariff barriers.

And, there are other barriers, to our power boats and yachts, produced by our Marine Division. These products cannot be shipped to Japan because of design parameters which effectively exclude American-made boats from that market, even though these boats are widely accepted throughout the world.

Gentlemen, there appears to be some clearcut cases here, particularly with inflated balls, where reciprocity would be in order. As noted in the attached letter to Secretary of Commerce Malcolm Baldrige, we recently suggested to a group of Japanese business executives, that if they did not remove their barriers, we would like to set up similar sanctioning committees in the U.S.A., copied exactly after the Japanese Committees, which would allow a group of American manufacturers to determine which Japanese balls were permitted to be imported into the United States. Needless to say, this idea of copying the Japanese system was not at all acceptable to the Japanese manufacturers.

Leaving aside our specific AMF problems, I would now like to address those areas in which Members of the Sporting Goods Manufacturers Association, have encountered similar non-tariff barriers.

David Grant, with Penn Athletic Company in Pennsylvania, has been working diligently to have his company's tennis balls recognized by the Japan Tennis Association. Only after months of hard negotiations, and the fact that the Japanese Rubberized Baseball League (JSBB) had been embarrassed by a New York Times article on not allowing U.S. manufacturers to compete in Japan's aluminum bat market, did the Japan Tennis Association agree to allow the import of American-made tennis balls.,

With regard to the aluminum bat problem which the Association has been working over the past couple of years to resolve, Easton Aluminum, at one time, had been doing about $1 million a year in exporting bats to Japan. Jim Easton, President of Easton Aluminum in California, has been referred to as the 'father of the aluminum bat.' When the Japanese noted the ripeness of that market, they decided foreign-made aluminum bats needed regulation in some way, that effectively barred U.S. competition. One of the biggest manufacturers of aluminum bats in Japan, today, is the Japanese company through which Easton marketed its bats.

Mr. Chairman, only through the efforts of the industry as a whole, and the follow-up actions of the U.S. Trade Representative's Office, the Department of Commerce and our Embassy in Tokyo, has this non-tariff barrier been eliminated. We are, however, still waiting to see in English, the JSBB's revised specifications, which will determine the extent of our ability to compete in that sizable market.

Lastly, distinguished Committee Members, we have recently received the following telex from the American Consulate Office in Japan:

"Foreign firms are prevented from participating in the four major sporting goods trade shows in Japan—the two Osaka Sporting Goods Wholesalers' Association shows and the two Tokyo Sporting Goods Wholesalers' Association shows."

In October, 1981, the Association was told that the Osaka Wholesalers would "study the problem". In December, our Embassy in Japan was informed informally, that the Osaka Association had decided not to allow foreign firms' participation to preserve their small and medium size sporting goods manufacturers.

Before closing, there is one additional factor that our manufacturers believe needs to be considered when they are restricted from selling in Japan and the Japanese are free to compete in our markets here: these practices affect our volume, which in turn produce increased costs, which make our manufacturers less competitive. The impact is not only the pure loss of business in Japanese markets, but the fact that due to our lower production and costs, we become less competitive in all of the world markets.

I believe, gentlemen, that here, today, we have outlined many instances where legislation mandating equity in free trade could make the difference to the kinds of trade practices employed by our foreign competitors. It is unfortunate that legislation has to be considered since the Japanese do not seem willing to eliminate these trade problems, as we would prefer, through normal negotiating means.

As the Secretary-General of the JSBB League replied to Mr. Cochran of our Embassy in Japan, when first being notified of the U.S. manufacturers aluminum bat complaint:

"The JSBB League is a private organization, not a government one, and has nothing to do with any trade treaties."

Senators, we, at AMF, have a great respect for the Japanese business leaders who have been cooperative with us through the years in both supplying us with products and in selling our products. All we ask is that these Japanese trade barriers be removed, so that we can have "free and fair trade." It must be a two-way street, not "fair" for one side, the Japanese.

We appreciate the diligent attention of this Committee to the Japanese non-tariff barrier problem. While we have focused on our problems with Japan, the problem, is in no means, limited to that country. Thank you.

AMF Inc.,
International Trade Operations,
White Plains, N.Y., December 2, 1981.

Hon. Malcolm Baldrige,
Secretary of Commerce,
Washington D.C.

Dear Mr. Secretary: Your address to the international meeting of the American and Japanese sporting goods industry in Washington on November 10, 1981 made it clear to the Japanese that the U.S. Sporting Goods Industry has your support and you will endeavor to assist sporting goods manufacturers in overcoming trade obstacles and barriers imposed by the Japanese.

On November 9, 1981 at the private session between the Sporting Goods Manufacturers Association (SGMA) and the Association of the Japan Sporting Goods Industries (JASPO) we informed the Japanese of the non-tariff barriers imposed on inflated balls, and that the Japanese sanctioning committees for inflated balls were made up of representatives from Japanese ball makers thereby controlling ball sanctioning. Additionally, sanctioning has only been granted to Japanese made balls.

Following an exchange of dialogue on this subject and seeing that no progress was being made, and to dramatize the problem, I suggested the following scenario to the Japanese . . . the U.S. adopt a ball sanctioning program exactly like that used in Japan. This meant that we would set up a sanctioning committee made up of representatives from Voit, Wilson, Spalding etc. This committee would sanction balls until such time as the Japanese Association changes its rules and permits sanctioning of inflated balls other than Japanese made. Needless to say the Japanese thought this was a very bad idea.

We, of course, realize that we could never do such a thing in the U.S.A., but the point was made to the Japanese.

We intend to pursue this issue and wish to coordinate our efforts and actions with the Commerce Department and the U.S. Trade Representative, and are prepared to visit Washington to discuss this trade barrier issue with the appropriated people that you may suggest. We believe we have sufficient information to start pressing the Japanese.

Please let us have your recommendations and we thank you for your assistance and support.

Sincerely,

Bernard E. Conor, *President.*

Memorandum of Conversation

Subject: JSBB Mark of Approval for Aluminum Bats.

Participants: Yoshiro Hashimoto, Director, ASICS K.K.; Grahame Petchey, General Manager, Rawlings Japan; Herbert A. Cochran, American Consulate General; and Hiroshi Takatsuki, American Consulate General.

Date and Place: May 26, 1981; American Consulate General.

(Note: ASICS is Rawlings' agent for a number of products, including aluminum bats for rubberized baseball. Mr. Hashimoto met with JSBB Secretary General Funazu on May 1 to discuss getting approval to place JSBB stamps on aluminum bats with Rawlings trademarks).

Hashimoto. Please forgive me for getting right to business. I met with the JSBB's Mr. Funazu on May 1. He told me he would study your memo on the situation, consult with MITI, etc. However, he said rubberized baseball originated in Japan and is played only in Japan. So American bats can not be used. Funazu also said that he and the JSBB League had no objection if ASICS sold Rawlings brand bats for use in the 50,000 teams which are not members of the JSBB League and that perhaps, after two or three years, the JSBB League would consider giving approval for ASICS to put the JSBB stamp on Rawlings brand bats. ASICS has ordered a sample of bats from Rawlings and we plan to start selling from next year. We have made one step forward.

However, Mr. Funazu said that the JSBB League is a private organization, not a government one, and has nothing to do with any trade treaties.

Cochran. I am happy to hear that you will be able to sell some American bats next year. That is a step forward. I'm afraid I disagree with Mr. Funazu. Even private organizations and firms must abide by laws and treaties which affect them. For example, you must abide by the Commerical Code. Under the GATT Standards Code, governments agreed to clarify problems with standards so as to remove trade barriers. Underwriters Laboratories, a non-government organization in the US, provides information and testing on standards for any firm, American or Japanese.

I'm glad you will have more business, but I think we have to work more on this barrier.

But after thorough research, I discovered that the only accident was caused by a Japanese-made bat, an SSK bat. According to the Japanese press reports, which I have, the end of a bat came off, a player was hit in the eye, and there was a product liability suit which was eventually settled out of court for about $250,000.

When I mentioned this to Mizuno's chairman of the board, he agreed with me that this was the only accident, and that it was an SSK bat, not an American bat.

Hashimoto. That's right. It was a Japanese-made bat. And that is when the standards were imposed that stopped sales of American bats.

Cochran. Maybe the JSBB League should have stopped the sale of Japanese-made bats and required all players to use American-made bats.

Well, I appreciate you taking time from your busy schedule to visit me to explain how you are making progress. Please understand that I hope to keep working steadily on this problem so as to remove this barrier.

By the way, you said the JSBB League would consider giving ASICS approval in two or three years to put the JSBB stamp on Rawlings bats. You know, a lot of other American firms want to sell their bats here, Easton, H & B Louisville Slugger, etc. I know that two or three of the six firms in the aluminum bat cartel are thinking of selling American brand bats, starting with the "double Chop" system (using both the Japanese and American brand). You have made a step forward in your business, but if you wait two or three years before you put the JSBB mark on your bats, you may be too late. Other American brands may already have most of the market.

TESTIMONY OF HOWARD J. BRUNS, PRESIDENT, SPORTING GOODS MANUFACTURERS ASSOCIATION, AND CHAIRMAN, RECREATION INDUSTRY COUNCIL ON EXPORT

The EPA has found a partner in eliminating the smokestacks of America . . . . IMPORTS. These smokestacks are now in Europe, Far East, and rising rapidly in "favored nation" countries of Africa, Asia and South America. This industry has a substantial trade deficit. In fact, approximately six percent of the country's trade deficit in 1981 was attributable to the sports and recreation products.

The Sporting Goods Manufacturers Association and its sister organizations represent over 3,000 members. The Recreation Industry Council on Export is comprised of six industry segments from the sports and recreation field and represents a combined membership of 6,000 companies.

The sports and recreation industry is approximately $16 billion in sales at retail and its products and services touch nearly every American as either a participant or spectator.

According to this committee's report several years ago, $1 billion in trade is worth approximately 40,000 jobs. Accordingly, this industry's trade deficit is costing the nation approximately 90,000 jobs.

The reason for the trade deficit in this industry is not unlike that of other industries:

Barriers to trade in other nations.

A preoccupation with the home market to the detriment of international marketing.

Non-competitive pricing in the international market due to the following:

(a) Subsidized industries by foreign governments.

(b) Average hourly labor rates 50 percent to 100 percent greater for U.S. based manufacturers.

(c) Higher interest rates in the U.S. compared to other trading nations, particularly Japan.

(d) High cost of product liability insurance which in this industry is 4 percent of sales as opposed to ½ of 1 percent for foreign suppliers. Some foreign suppliers carry no P.L. insurance.

(e) Other factors varying in degrees of impact (see "Exhibit No. 1" for more detail).

This committee, while interested in all of the aspects causing the international trade deficit, has particular interest in non-tariff barriers. So I will concentrate my discussion on that point.

Non-tariff barriers are difficult to uncover and even more difficult to substantiate. By their very purpose, these barriers do not appear in print and, in some cases, give every appearance of being well intentioned.

However, this industry has had unusual success in confirming that barriers do exist. We have written proof they exist (see "Exhibit #2). And have demonstrated their removal is, at least, not beyond the realm of possibility.

While Japan is the primary target, it is not the only nation in the world that erects barriers against U.S. sports and recreation products.

In Japan we have found that most U.S. manufactured sports products are difficult to market as a result of a strong nationalistic attitude and smart domestic merchants who use the "closed society" to their advantage. This is not criticism of our friends in Japan, but the hard reality of excellent marketing acumen. We salute them . . . . at the same time no longer tolerating the status quo.

In 1980, Jim Easton, a manufacturer of aluminum bats; Mr. Inaba, of the U.S. Embassy in Tokyo, and I made a call on MITI registering a formal complaint to the Japanese government about abstructing the importation of U.S. made aluminum bats. This complaint reached the highest levels of the U.S. State Department as evidenced by the attached wire over the name of Alexander Haig (see "Exhibit No. 3).

A market, representing some 1,231,000 players on 61,551 teams, mostly in youth leagues, had been closed to American manufacturers of the very product which they had introduced in this far east country.

Due in a very large measure to followup by Don deKiefer and Don Abelson of the USTR office here in Washington, and Herb Cochran with the Foreign Commerical Service based in Japan, our complaint proved valid, and I can report that this barrier has been eliminated with the agreement of the JSBB League in Japan who, last month, changed their by-law, to permit U.S. products. Please review "Exhibit No. 4" and "Exhibit No. 5" for details on two summit meetings between the sports industries of Japan (JASPO) and U.S. (SGMA) on these matters.

However, this case, if studied fully, is an example that barriers a) do exist; b) can be eliminated through private sector initiative; but does not prove that we have broken the barriers for good nor changed the natural instincts of the Japanese society to reject imports. In other words, our work has just begun on non-tariff trade barriers.

We have similar examples in the area of tennis balls; yachts; gymnastic equipment; inflated goods such as basketballs, volleyballs, soccer balls and playground balls; trade shows that restrict foreign manufacturers. In fact, as the success of the aluminum bat is circulated, new complaints have surfaced that the SGMA and DOC's Mr. Cochran have just begun to investigate their validity.

SGMA's effort in conjunction with the USTR and the DOC will continue over the months and years ahead to eliminate these barriers; but we solicit the support of this committee and its staff to put some muscle behind these efforts to make sure that, like "footsteps in the snow", they don't get covered over by morning. Senator Heinz's Reciprocity on Trade Service and Investment Act of 1982 may just supply that kind of muscle.

However, Japan is not the only country to be concerned with.

South Korea has tariff barriers against the importation of golf equipment; golf clubs are subject to five different taxes which exceed 200 percent which, by the increased cost, limits the market to the extremely wealthy of that nation. The U.S. sports and recreation industry becomes even more distraught when they witness the high volume of sports merchandise coming in from Korea at very low duty rates.

Another example is the great tournament at Wimbledon which is played only with an English made tennis ball.

The 1984 Olympics to be played in Los Angeles, true to the American tradition of open-mindedness as well as an open market, have licensed sport companies in Japan and Germany as the official licensees of balls for the 1984 Olympics. Do you think that will be the case for the 1988 Olympics in Korea? I genuinely doubt it.

While the American market is as open as the American mind, we find time and time again that this is not a reciprocal arrangement with foreign markets. Again, Senator Heinz's bill is trying to change that arrangement.

Accordingly, the $2.2 billion trade deficit the sports and recreation industry experiences can only be eliminated in these two ways:

1. By the U.S. sports equipment manufacturer exporting $2.2 billion more in products.

2. Reducing importation by $2.2 billion through closing of the domestic market to imports in any one of a number of ways . . . . a) increase tariffs; b) establish non-tariff barriers. (The SGMA has received verbal support from U.S. professional and

amateur sports leagues who have unilaterally offered to ban products from those nations that have barriers against this country's sports manufacturers.)

The Sporting Goods Manufacturers Association believes in free and fair trade. But free and fair trade implies equal trade. And by no means is the trade equal when dealing with sports and recreation equipment.

We are not asking that this committee adopt a protectionistic attitude. We hope, as I am sure this committee does, that "Reciprocity" is never needed. However, we do solicit the strength of this committee, the U.S. Senate, and the U.S. government to strongly support our efforts to open the markets of the world. I believe wholeheartedly in private sector initiative. However, the SGMA does not have a standing army, does not have diplomats or legislators, and cannot bring to bear through intimidation or careful diplomacy the force necessary to permanently change the attitude of our trading partners. THIS COMMITTEE CAN . . . . and in this we solicit your help.

EXHIBIT 1

A Special Report From Howard J. Bruns, President, Sporting Goods Manufacturers Association

INTERNATIONAL MARKETING—SEPTEMBER, 1981

Several years ago the Sporting Goods Manufacturers Association sounded the alarm! The industry's trade deficit was $1.4 billion and climbing at an astounding rate.

This escalated to over a $2 billion deficit by 1979 even though the U.S. sports equipment manufacturers began to export more. Why? Because the momentum built by decades of work continues to "pay off" for foreign suppliers. Today's trade deficit is approximately $2.2 billion despite the fact exports have increased four-fold in four years to $826 million. One of the culprits is athletic footwear of which $811 million was imported in 1980, but only $35 million exported.

The increase in exports is led by tennis rackets, balls, bowling equipment and footwear. For a complete detail report on a ten year history of exports by item, write us.

There is little question that a freer world market is in our future. President Reagan's lifting of the shoe quotas and the proposed National Export Policy Act of 1981 are only an indication of things to come. The abolition of GSP is only a matter of time in my opinion. While the lifting of GSP will hurt certain SGMA manufacturers in the short run because of reliance on the Korean and Taiwanese factories, some feel in the long run it makes no business sense to subsidize products of *any* single nation if free enterprise is to become a world wide doctrine. Let's face it, subsidies like GSP only encourage U.S. factories to close up and re-open overseas.

INTERNATIONAL MARKETING

One point that often confuses us in discussions of this type is that there are two separate and distinct economic forces at play which we conveniently entitle "International Marketing". Sourcing product overseas and selling it overseas combine to make up the trade deficit or gain. But they, of course, are quite separate decisions often made by different kinds of people within the same company.

Let's discuss sourcing in more detail here.

SOURCING

The movement of factories from America to foreign shores has created no material benefits to the consumer despite what certain economists foretell. In fact, this shift is partly to blame for the disastrous profit performance in 1980 of 1.4 percent or one-third the national average of 4.9 percent. America cannot survive as a "service only" economy. Without the very basic control inherent in the grass roots production of a product, the U.S. economy and domestic sports industry becomes a house of cards. If the industry's profit decline does not convince you, then read on.

Look at baseball gloves! In 1960 less than one million ball gloves were made offshore at an average dockside value of approximately $1.00. In 1981 approximately seven million ball gloves will land on our shores at an estimated dockside value of $8.00 per glove. . . or better than 95 percent of the ball gloves bought and sold in the U.S. are made offshore. The great American pastime. Amazing!

One of the most detrimental elements of this shift of manufacturing control from America to other countries, which has gone "without a shout or shot fired," is that the U.S. manufacturers of baseball gloves became distributors and weaker ones totally eliminated. The major chains suddenly could go overseas to the factories and buy direct. It is estimated that over 40 percent of the ball gloves sold in the U.S. are now by-passing U.S. manufacturers/distributors.

Can the ball glove scenario be repeated in other industry segments? Yes! Of course! First the control of production can be eliminated by the factory moving offshore into the hands of others who now control design, dies, labor, know-how and price; and foreign manufacturing concerns use their larger gross margins and economies of scale to eventually invest large sums in their own brand name. And when they develop or buy their own brand name, your relationship is dissolved.

There are only a few ways this can be combated. Restricting imports by any of a number of methods, control the offshore factor through ownership, fight like hell to keep your U.S. factory going and pray the cost conditions improve. Not much of a selection of choices, is it?!

"Come off it," you say. "The ball glove situation was a one product fluke!" Well, it has already happened with shoes: according to the AFIA, 70 percent of athletic footwear is imported. Several long time SGMA members have closed 50 percent or more of their plant capacity and now import components or whole shoes from offshore. It is in the process of happening with inflated balls; and can happen with baseballs, aluminum bats, golf balls, tennis balls, and more over the next five or ten years. It is important to remember that U.S. manufacturers continue to work at considerable disadvantage. Interest rates at 22 percent for working capital compared to 6 percent for foreign manufacturers; liability insurance at 4 percent of sales versus one half of 1 percent for foreign companies; and the average hourly labor rate is $8.00 in the U.S. against $4.00 and $6.00 for foreign companies. Sure, a weak dollar has equalized that up until recently. . . but that is changing now with a stronger "buck".

NONTARIFF BARRIERS

As we said earlier, sourcing product and selling product sometimes can be lumped under "International Marketing", but they are two separate economic considerations. While we have done an excellent job acquiring product overseas, we have not done as well with selling it overseas. The good news is that we are improving. Share of "World Market" has begun to replace of share of "U.S. Market" in our basic thinking. And so long as our U.S. market is open to foreign competition, those nontariff barriers have got to come down in other countries. That's a must!

Certain GATT agreements are a sham. Why? Foreign governments agreed to eliminate, not reduce, but eliminate, nontariff barrier. These barriers to U.S. sports products are as evident today as ever in some countries. We are trying to correct that situation now product by product. Aluminum bats, inflated balls and tennis balls head the list and formal complaints by our government to other governments on our behalf are being readied.

Foremost, the industry must organize itself and make the necessary noises. Leaders, unafraid to be second-guessed, most emerge from our membership and speak out.

Some already have! Secondly, government officials working in these areas of trade, trade restrictions and barriers have to understand what they are dealing with, which can only come from closer communication with the heads of those companies involved. The loss of the entire baseball glove market to offshore factories has been one of the great crimes of the past two decades, yet not one shot was fired during the takeover. How many jobs were lost? We never bothered to count. How much market share was lost? We have never figured it out. On the up side, we are much more alert than we were ten or fifteen years ago to the problem. American manufacturers are exporting more and they are more in tune with what's going on worldwide. But let's be realistic. We still rank third behind Japan and the common market countries as international marketeers. We're learning fast, though. I certainly believe than any further incursions upon our market or our factories would be hard fought by the manufacturers themselves, the U.S. government, and the SGMA. The SGMA is here to protect the interests of American sports equipment manufacturers and distributors against all comers.

INDUSTRY'S COMMITMENT

The creation of the World Federation of the Sporting Goods Industry (WFSGI) and Recreational Industry Council on Export (RICE) are tangible evidence of the commitment this industry has made to balance the $2.2 billion trade deficit. But the real battle is being waged at shows, in sales meetings and in the private business session of our members. The meeting with the Japanese (JASPO) in 1981 in Washington, D.C. in November and the Monte Carlo World Sport Equipment Congress in

August, 1982 are only two of a dozen activities going on. The Commerce Department, with "RICE's" help, will publish sports market surveys of eight countries by year end; foreign retail buying groups for sports equipment are being brought to the U.S. in record numbers now and in 1982. SGMA members are attending international trade shows such as SISEL, ISPO, and SPOGA in more numers and the industry trade press has fanned out around the glove to bring back knowledge and guidance to U.S. company leaders.

CONCLUSION

As an industry, no other is trying harder to help itself. And we have to or one day we'll all have to learn a second language to talk to the boss.

EXHIBIT #2

July 23rd, 1981

Mr. Howard J.Bruns
President
Sporting Goods Manufacturers Assn.
200 Castlewood Road
North Palm Beach, Florida 33408
U.S.A.

Dear Mr. Bruns:

We have received the letter about procedures for obtaining the + JSBB + stamp of approval on your alminium baseball bats.

We regret to say that we are not in a position to comply with your request. We, the JSBB, cannot approve the articles made outside the country.

Your kind understanding of the above situation is requested and will be highly appreciated.

Sincerely,

福田信三

Shinzo Fukuda
Secretary-general
JSBB League Headquarters
4-27-7 Sendagaya
Shibuya-ku
Tokyo

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EXHIBIT #3

UNCLASSIFIED

DEPARTMENT OF COMMERCE

INCOMING TELEGRAM

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ED/OEMA:PRYAN
USTR:DAHELSON
STATE/EB/STA:MTOKOLA
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E.O. 12065:N/A

TAGS:ETRD, JA, MTN

SUBJECT: METAL BASEBALL BAT CERTIFICATION PROBLEM

1. THE SPORTING GOODS MANUFACTURERS ASSOCIATION HAS INFORMED USG THAT WORTH BAT COMPANY AS RECEIVED A RESPONSE FROM THEIR JAPANESE AGENT REGARDING THEIR REQUEST FOR

OBTAINING THE JSBB LEAGUE STAMP OF APPROVAL NEEDED TO SELL METAL BASEBALL BATS IN JAPAN. ACCORDING TO WORTH'S AGENT, MORI TRADING CO., LTD, THE JSBB ASSOCIATION WILL NOT PRESENTLY ACCEPT ANY BAT MANUFACTURER'S APPLICATION FOR A JSBB STAMP BECAUSE THEY BELIEVE THAT THE MARKET IS SATURATED AND THAT IT IS NOT NECESSARY TO EXTEND THE STAMP TO ANY JAPANESE OR FOREIGN COMPANIES OTHER THAN THE SIX JAPANESE MANUFACTURERS WHICH HAVE ALREADY BEEN APPROVED. MORI TRADING CO. ADVISED WORTH BAT THAT THEY WILL BE CEIVING A FORMAL NEGATIVE RESPONSE FROM THE JSBB LEAGUE TO THEIR APPLICATION REQUEST.

2. USG IS CONCERNED ABOUT THE JSBB LEAGUE'S APPARENT REFUSAL TO EXTEND THEIR STAMP OF APPROVAL TO MORE THAN SIX COMPANIES. THE CERTIFICATION SYSTEMS SECTION OF THE GATT STANDARDS CODE (ARTICLES 7-9) REQUIRES SIGNATORIES TO ENSURE THAT CERTIFICATION BODIES GRANT ACCESS TO FOREIGN SUPPLIERS UNDER CONDITIONS NO LESS FAVORABLE THAN THOSE ACCORDED TO DOMESTIC SUPPLIERS. ARTICLE 7 OF THE STANDARDS CODE IS APPLICABLE TO NATIONAL GOVERNMENT CERTIFICATION SYSTEMS AND ARTICLE 8 IS APPLICABLE TO LOCAL GOVERNMENT AND NON-GOVERNMENT CERTIFICATION BODIES.

3. ACTION REQUESTED: POST IS REQUESTED TO SUPPLY A STATUS REPORT OF THEIR INVESTIGATION OF THIS ISSUE. WE WOULD PARTICULARLY APPRECIATE A CLARIFICATION OF WHETHER OR NOT FOREIGN SUPPLIERS ARE PROVIDED ACCESS TO THE JSBB MARK AND WHETHER THE JSBB LEAGUE IS A GOVERNMENT OR A NON-GOVERNMENTAL BODY. HAIG

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EXHIBIT #4

SGMA/JASPO SUMMIT II

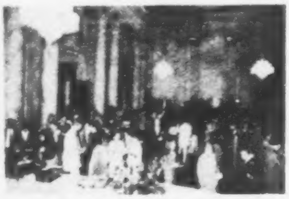
PLUGGING YOU IN
TO SGMA'S MEMBER
SERVICES PROGRAM

FEBRUARY 1982
PUBLISHED BY
SPORTING GOODS
MANUFACTURERS
ASSOCIATION

Sporting Goods Manufacturers Association, 200 Castlewood Rd., North Palm Beach, FL Telephone: 305/842-4100

Delegates to the SGMA/JASPO Summit II interrupt the course of business for an official photograph.

Keynoter Secretary of Commerce Malcolm Baldrige welcomed by SGMA/JASPO Leaders.



Historic Senate caucus room provides perfect backdrop to SGMA Grand Reception.

SGMA/JASPO Industry Summit Kicks Off In Washington, D.C.

Meetings Offer — R_X For Success

The big news out of the Second SGMA/JASPO Summit; held November 9th and 10th, in Washington, D.C., is that Japan's Rubberized Baseball League will officially extend its seal of approval to American-made aluminum bats in February, 1982.

The opening of Japan's metal bat market to U.S. competition culminates a year of low-key but aggressive negotiations first initiated by former SGMA Chairman Jim Easton and President Howard Bruns. Through the continued leadership actions of Chairman John Parish and the dedicated efforts of Commercial Officer Herb Cochran in Tokyo, U.S. sporting goods manufacturers achieved a coup of unprecedented proportions within the industry. Without using traditional government protectionist props, a major non-tariff barrier has been eliminated between the U.S. and Japan by sporting goods manufacturers.

This history-making action now enables SGMA members to share in a market encompassing an estimated 61,551 teams and 1,231,020 participants.

In keynoting the SGMA/JASPO general session, Secretary of Commerce Malcolm Baldrige impressed upon JASPO delegates the Administration's commitment to fair trade practices. Both Baldrige and USTR General Counsel, Don deKeiffer, applauded SGMA's private sector efforts to expand its export markets and noted that the aluminum bat case serves as a model for other industries.

Meetings in the Nation's Capitol were not all formal and serious. The Japanese Embassy hosted delegates at a welcoming reception, capped by a JASPO reception at the Hay-Adams Hotel across from the White House, following the first day of closed meetings. The jubilant atmosphere carried over to the second night, with SGMA's Congressional Reception in the historic Senate Caucus Room on Capitol Hill.

A host of government officials and trade press representatives attended the open SGMA/JASPO sessions, where 41 Presidents of American and Japanese sporting goods manufacturing operations engaged in frank discussions on issues affecting each industry's competitive status in the world market.

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A Pictorial Perspective On SGMA/JASPO Fanfare

1

WORKING SESSIONS

1. Guest speaker, Don deKieffer, USTR General Counsel, tells delegates his office's top priority is opening world trading system and lowering non tariff barriers to trade.

2. Without pulling punches, MacGregor Chairman, Fred Brooks declares, "It is wrong when American manufacturers are effectively barred from selling basketballs in Japan and Mikasa, Tachikara and Molten, have free access to American markets." (Inflated balls are the next non tariff barrier item for resolution on SGMA's trade agenda.)

3. Fred Juer (Worth Bat), Nat Katz (Felco), Jim Long (Spalding) and Harold Lipson (Champion) listen closely to Japanese trade perspectives.

4. With high hopes for continued talks on issues of mutual concern, Takeo Ishimoto, JASPO President, is joined by Hideo Matsuura, VP JASPO, and SGMA Chairman John Parish and President Howard Bruns, in signing the joint communique.

5. "The world of sport is but a microcosm of the world we live in. The lessons of fairness on the playing field also apply to nations." Jim Norris, Exec. VP, AMF Voit on the value of youth sports activities.

6. Trading stories is part of any party. Here, Japanese Envoy Extraordinaire, Michio Mizoguchi, is regaled by Len Fisher, Mico D Licastro (CGM) and Nat Katz (Felco Athletic Wear).

7. Former SGMA Chairman Jim Easton (Easton Aluminum) rekindles old acquaintance with Kihachiro Onitsuka (Asics) made at first SGMA/JASPO Summit in Tokyo in 1980.

8. Summit coordinator, Maryanne Mascolino Eiser, is flanked by JASPO President, Takeo Ishimoto and Fumiya Tanizaki (Molten Rubber).

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WELCOMING RECEPTION
EMBASSY OF JAPAN

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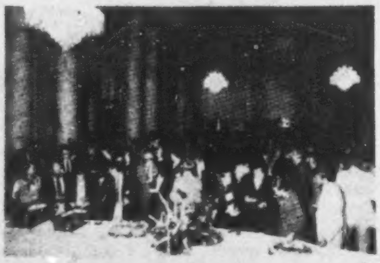
Toasting Success SGMA-Style



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SGMA GRAND RECEPTION

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9. Parade of Congressional Members and staffs throng to SGMA's Hill reception for showstopper conclusion to SGMA/JASPO Summit II.

10. Senator Spark Matsunaga (D-Hawaii) enjoys SGMA's hospitality with members Gib Ford and John O'Neill (Converse) and Maria Dennison, SGMA's Director of Washington Operations.

11. Hill legislative aide and Commerce Department's Peter Ryan provide latest trade gossip to Shoichi Kiriyama (Mizuno) before his return to Japan.

12. David Grant (Penn), Minister Jiro Aiko, and Fumiya Tamiyaki discuss differences between U.S. and Japan business practices. Exchanging industry information is what SGMA/JASPO Summit is all about.

13. Japanese trade reporter asks Elmer Butler (Converse), John O'Neil (Converse) and Howard Bruns (SGMA) for latest aluminum bat scoop.

14. SGMA President Howard Bruns shares behind the scenes information with reception attendees.

15. Bob Spannan (Spannan Sportswear) trades business cards with Takeo Ishimoto, as part of US/Japan efforts to stop trademark and brand name piracy within the sporting goods industry.

A SPECIAL THANK YOU!

To SGMA members and JASPO delegates for a history making meeting, to chairman John Parish and president Howard Bruns whose dedicated efforts made SGMA/JASPO Summit II a reality, and to Maryanne Mascolino Esser, meeting coordinator, who pulled it all together with a Washington assist from Maria Dennison.

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Data Differences Spark Rebuttal By SGMA President

Statistics on the growth of the U.S. Sporting Goods Industry, promulgated by the Department of Commerce, brought SGMA President Howard Bruns to his feet, challenging both domestic and foreign data claims.

Contrary to Department of Commerce data, the sporting goods industry's trade deficit world wide for 1980 was $2.2 billion with exports increasing from $300 million to $800 million over the past four years for all RICE Members.

"The problem of misleading data on the industry can be laid totally at the door of the SIC codes, not Commerce." quipped Bruns. "For years we've been trying to get the government to adequately represent athletic clothing and footwear in their Standard Industrial Classifications and Census of Manufacturers Reports to no avail. The fallout effects of these sins of omission present serious problems to this industry, in illustrating our growth, size and export data. Probably 1 out of 2 studies done on our industry do not reflect the real universe because it was based on SIC code related data."

"At every possible turn, we are obliged to bring to light the magnitude of the problem, unfortunately our good friend Malcolm Baldrige, Secretary of Commerce, happened to be in the right place supplied with bad data," Bruns commented.

Youth Sports — A Japanese Perspective

The promotion of youth sports in Japan is both organized and subsidized by the Japanese government and the Japanese sporting goods industry. National athletic meets are currently the most influential means for promoting amateur athletics. The competition extends down to the senior high school level and is broadcast to the entire country via radio and television. An integral part of Japanese secondary school education is inter-high school meets, sponsored by the All-Japan High School Athletic Federation, the Ministry of Education and the Japan Broadcasting Corporation, with some 20,000 student athletes participating.

In addition, the national public holiday, "Health Sports Day" provides an opportune time for manufacturers, wholesalers and retailers to carry out activities aimed directly and indirectly at stimulating a demand for their products through sponsorship of sporting events, fairs and conferences throughout the country on a regional basis.

According to a newly-released government survey of athletic facilities in Japan, there are approximately 219,000 facilities, representing an increase of 16% over the total in 1975 or 48% from the number found in 1969. School athletic facilities represent 65%; public athletic facilities, 14%; company athletic facilities, 13%; commercial athletic facilities, 6%; and non-profit private athletic facilities, 3%. Most common kinds of facilities include: exercise grounds, gymnasiums, outdoor swimming pools, outdoor tennis facilities, & outdoor volleyball facilities.

Rosy Picture Painted For Sporting Goods Growth In Japan

Current and future financial outlook for Japan's sporting goods industry shows increased growth based on social and economic indicators. Retail market sales for 1980 were up 13% from the previous year, with sales for 1986 projected 1.7 times larger than in 1980. Leading lines of sporting goods equipment representing over 100 billion yen per line for 1980 include: ski and skate products, training & athletic clothing, fishing goods, with baseball and softball, tennis and sport shoe items projected to increase to that level by 1985.

Market research shows a brisk expansion in sporting goods business by Department Stores. In 1981, it is estimated sporting goods sales will represent 3% of department store sale earnings. Sports lines with future high growth rates include: yachting & boating, aqualung, camping, ski & golf, ice & roller skates, & basketball.

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EXHIBIT #5

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NEWS RELEASE

NONTARIFF BARRIERS

NORTH PALM BEACH, FL -- When they finally got their turn at bat, the people from the Sporting Goods Manufacturers Association here apparently accomplished more with baseball than others had with hotdogs and apple pie.

After all, what is more American than baseball?

Baseball is something with which most Americans can identify much better than with, for example, medical equipment and electrical appliances.

Telling American manufacturers of aluminum bats they couldn't sell in Japan, when the Japanese were selling everything in the U.S. from cars and cameras to radios and record players was, well, unamerican.

Therefore, with baseball bats leading the way, the subject of nontariff barriers, heretofore greeted with yawning indifference, has become a significantly emotional issue as well as an economical one.

The Fed has responded accordingly.

Efforts are continuous at highest levels of government in both Washington and Tokyo to shrink the estimated $15-to-$18 million annual deficit in the balance of trade between the two countries.

Telling those people that American-made baseball bats couldn't be used in Japanese-sponsored leagues and tournaments was like hitting them with a beanball...deliberately.

The fight began in earnest in March, 1980, even though it wasn't even an agenda item when SGMA delegates met with their Japanese counterparts, the Association of Japan Sports Industries (JASPO) in Tokyo.

But because nontariff barriers cut across all the issues that had brought the two groups together -- youth sports, patents, trademarks and other trade questions -- the solution to that problem was given higher priority.

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American batmakers such as Hillerich and Bradsby, Easton Aluminum and Worth had begun to realize their market in Japan was drying up. Aluminum bats were first introduced in Japan in the early 1970's and by 1974-75, "We could hardly keep up with the demands," says Jim Easton, President of Easton Aluminium in Van Nuys, Calif. But by 1980, it was all over. "By then," Easton added, "we weren't selling any bats in Japan."

When questions were asked, the Americans were advised that only bats with a stamp of approval from the Japan Rubberized Baseball League (JSBB) could be used in competition.

It's something like the Good Housekeeping Seal of Approval, and though the prohibition did not include bats used in practice or in non-JSBB sponsored play, the long range effect would likely be the same.

The JSBB represents some 1,231,000 players on 61,551 teams, mostly in youth leagues. American manufacturers had lost a sizeable market for a product they had introduced in a foreign country.

While in Tokyo, SGMA President Howard Bruns and Easton, who was also the association's chairman of the board, were accompanied by Mr. Inaba, an embassy attache, to an introductory meeting with representatives of the Japan Ministry of International Trade and Industry (MITI).

A formal complaint was filed with MITI on behalf of the SGMA.

Soon, Herbert Cochran, Commercial Officer in the Office of the Consulate General of the United States in Osaka, Japan, an acknowledged expert in the field of nontariff barriers, and U.S. Trade Representative Offices in Washington and Geneva, Switzerland, were included in the all-out effort to make changes.

When inquiries were made as to the procedure for applying for JSBB blessing, the SGMA was advised to forget it, that no foreign manufactured products and equipment were permitted.

Armed with this brushoff in writing, the SGMA carried to Washington what it considered to be a clear example of a violation of the General Agreement of Tariffs and Trade (GATT).

With that, baseball bats were added to what was becoming a growing list of subjects which would be covered in high level discussions between the two governments. After all, Japanese manufacturers have a freedom to do business in this country which is unheard of by outsiders in their homeland. To continue this way was politically dangerous and could establish a protectionist system few businessman in the U.S. want.

Furthermore, several European countries have been similarly affected by and are hoping for relief from, Japan's habit of finding ways to block Western imports while freely shipping its products around the world.

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Foreign goods are required to meet rigorous health and safety standards or to pass exacting inspections before being allowed in the Japanese marketplace. And, according to some of the Americans involved, these strict guidelines are more loosely imposed on domestic manufacturers.

"It has seemed in the past," notes Jerry Martin, Vice President of Hillerich and Bradsby in Louisville, Ky., "that if one imported aluminum bat is cracked or defective, the importer is banned. If the same thing happens to a domestic bat, the manufacturer simply sends the customer a new one. "

"It's not something that can be proven. It just seems that way."

However, as a result of all the behind-the-scenes dickering, the JSBB said last October it would revise, subject to the approval of its board of directors, its regulations on how foreign manufacturers can sell to its leagues. Formal approval was announced in November, during the second round of summit meetings between leaders of SGMA and JASPO in Washington, D.C., and became effective in February, 1982.

And on January 30, 1982, the Japanese government announced that 67 of the 99 points contested in the broad issue of nontariff barriers had been resolved, opening markets for Western imports of cosmetics, pharmaceuticals, motor vehicles and other aforementioned lines, as well as sporting goods.

It's not quite that simple, of course.

H & B, for example, is still awaiting written notification that its bats will be approved by the JSBB, even though its distributor in Japan says this will happen.

"Our Japanese distributor visited our headquarters after the National Sporting Goods Association meetings in Chicago," Martin added. "He has assured us that the JSBB would approve American-made aluminum bats, that H & B, Worth and Rawlings aluminium bats had already been approved.

"We asked if this meant we could start shipping immediately, even though we have nothing in writing. He said probably so, but the bats still must pass MITI inspections.

"We don't think they will throw up any more barriers at us. This is still a hot issue and it reaches further than just the U.S. manufacturers of aluminum bats."

Indeed, after his success with aluminum baseball bats, Cochran's next target was tennis balls. After talks with the executive director of the Japanese Tennis Association (JTA) and government leaders on both sides of the Pacific, more changes were announced. Hereafter, JTA says, foreign and domestic tennis products will be treated the same. Insistence that only Japanese-manufactured tennis balls and equipment be used in JTS-sanctioned tournaments was dropped in December.

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"It's too early to tell," said David Grant, President of Penn Athletic Products of Monroeville, Pa., when he was asked whether the new procedures for approval were working. "I visited Japan the last week in January and it was confirmed to me verbally that approval was coming. The JTA said it would be confirmed in writing after their mid-February board meeting."

Penn is the world's largest manufacturer of tennis balls, claiming at least 35 percent of the American market in its own name and a greater portion when the balls it makes for other companies are included.

Grant said he hopes that within 5 years Penn will have the same amount of business in Japan that it currently writes in Europe, about 25-30 percent of the total.

"I suspect the JTA is going to delay this as much as possible," he added, "but they are under pressure from their government to show some evidence of action."

The JTA told Grant there are 5 million tennis players in Japan, about a million of whom are serious participants, and the annual growth rate is about 20 percent.

Cochran has been less successful, though just as determined in his efforts, in the broad range of inflated balls. Japanese volleyball officials, understandably proud of producing some of the best players in the world, have been even less receptive to making changes as were their reluctant counterparts in the JSBB and the JTA. Soccer and basketball spokesmen have yet to respond in an affirmative way.

While continuing his efforts on behalf of the American inflated ball industry, Cochran has also uncovered inequities in trade shows.

Whereas American manufacturers are not allowed to display their wares in Japan, there has always been a significant number of Japanese exhibitors at the SGMA's fall show in New York and the NSGA Show during February in Chicago.

Meanwhile, the SGMA is continuing to search out, find and identify other nontariff barriers and work for resolutions through appropriate government agencies.

And the SGMA plans to continue to keep its members informed of developments as warranted, while following up to see that changes dictated at the highest levels of government are, in fact, being put into effect.

"The Japanse government wants to keep moving on this, too," said Bruns. "It's getting tired of being pressured by the U.S. to make changes. It doesn't want to keep Japanese products out of this country.

"We are doing what we can to help keep open free, fair and equal trade between the U.S. and Japan, as is currently the case between Japan and the U.S."

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Senator HEINZ. Before I turn to you for questions, let me ask the other panelists to present their testimony and then I'll ask questions of you all as a group.

I'd like to call now on Ron Davis.

STATEMENT OF RON P. DAVIS, EXECUTIVE VICE PRESIDENT, COLONIAL BEEF CO., PHILADELPHIA, PA.

Mr. DAVIS. Mr. Chairman, I'm Ron Davis and I'm executive vice president of Colonial Beef Co.

[Complete statement follows:]

STATEMENT OF RON DAVIS, EXECUTIVE VICE PRESIDENT, COLONIAL BEEF CO. FOOD DISTRIBUTION CENTER

My name is Ron Davis. I am executive vice president of Colonial Beef Company, Philadelphia, a pioneer in the field of Portion Control meats. Colonial has been in existence since 1889, and under its present ownership since 1937. Louis E. Waxman, president and sole owner, is known internationally for his expertise in the field of Portion Control.

Our company began selling Portion Control meat products to Japan in the Fall of 1975 and we currently do business with more than a dozen major Japanese trading companies. We have continually strived to eliminate Japan's restrictive trade barriers to open the Japanese market for import of U.S. finished meat products.

At year-end 1981, Japan enjoyed a trade surplus with the United States of over $15 billion. This trade imbalance has increased steadily with little or no effort on Japan's part to establish a more equitable trading partnership. One of the areas in which this trade deficit can be reduced is through the expanded sale of "high quality beef", especially Portion Control value-added products. The Government of Japan (GOJ) openly restricts meat imports with quotas, government buying programs, tariffs, surcharges and domestic pricing mechanisms designed to make imported meats less competitive.

Japan poses a formidable problem in the complex arena of international trade. The United States, although blessed with an abundance of technical skills, imports mammoth numbers of TV's, radios, watches, cameras, automobiles, motorcycles, calculators, making household words of Toyota, Datsun, Casio, Canon, Sony, Sanyo, Minolta, Seiko, Citizen, Nikkon, and on and on and on. With the increasing number of imports comes the inevitable—a dramatic loss of jobs in the United States. While the unemployment rate in the United States is now approaching 10 percent, the number of unemployed Japanese remains at a little over 1 percent.

The irony is that Japan, though heavily dependent upon imports to fill its demands for high quality beef, sets rigid restrictions on the import of these items from our country. There exists today an unfair quota system, heavy levies and a general lack of cooperation that reduces U.S. beef exports to a fraction of what they could be.

The major reasons given by Japan for the meat quotas are: (a) to protect their country's farmers who depend on meat products for income; and (b) the demand for high quality U.S. beef is limited. It is my contention that these reasons are a fallacy. In truth, the demand for high quality U.S. beef throughout Japan is substantial, especially in hotels and restaurants catering to Western visitors. In addition, supermarkets and department stores crave U.S. beef which is unsurpassed in quality and reasonable in price. The ability of Japanese farmers to raise enough cattle to provide even a fraction of the meat needs of the Japanese population and Western visitors is extremely limited, and imports can be greatly increased without infringing on Japanese industry at all.

U.S. Choice and Prime meat products are far superior to the Australian, and there is additional cost involved in the raising and processing of beef. The 25 percent tariff imposed by the Government of Japan on all meat imports greatly increases this cost. In addition, this tariff is based on not the product price, but the landed price, which means that even ocean or air freight is subject to the 25 percent tax.

If the exorbitant tax is not bad enough, there is, in addition, a surcharge which runs anywhere from 30 to 75¢ per pound, depending on the cut of meat. Is it any wonder why U.S. meat is too expensive? In retrospect, the United States charges 2¢ per pound for all imported meats.

Japan's "lack of demand" issue is sheer nonsense. Three Japanese meat promotions stand out in my mind; the Harumi International food show, Kansai Cold Stores food show (Osaka) and the Boatique America show. At the Harumi show, 30 metric tons of mostly Portion Control meats were exhibited and completely sold out in less than four hours. The Kansai show had approximately 20 metric tons of Portion Control meats which were sold out so quickly that they had to be rationed, and police were called in to help quell the unruly crowds trying to obtain U.S. beef products.

Boatique America is the most significant example, where 130 metric tons (out of 1,000 metric tons requested by the U.S. Department of Commerce) were completely sold out. Sales were described by the press as follows:

"America's latest effort to promote exports to Japan—a floating department store—proved at least one thing during five days of sales here.

"Japanese consumers like American beef, or at least they like the prices.

By the time the 13,082-ton Shin Sakura-Maru left Tokyo Wednesday to move to the second of 13 ports of call in Japan, beef sales had accounted for almost 24 percent of the $646,702 worth of merchandise sold aboard the ship which was anchored at Harumi Pier. The next best-selling category—women's apparel—brought in only about half as much.

The crowds, especially over the weekend, were large and many people went directly to the beef counter on the lower deck where sirloin was selling for $7.59 a pound—a bargain by Japanese standards. Weekend crowds were so big that thousands had to be turned away.

Beef sales, which were restricted to 2.2 pounds (one kilogram) per customer, were cut off after four hours one day when the daily allocation of 2,600 kilograms (5,720 pounds) ran out."

During calendar 1980, Japan imported a total of 121,889 metric tons of meat, broken down as follows: Australia, 92,935 metric tons [76.2 percent]; the United States, 22,437 metric tons [18.4 percent]; and other countries, 6,517 metric tons [5.3 percent]. It must be mentioned that U.S. meat is federally inspected, while Australian, and that of most other countires, is not. Additionally, the U.S. provides grain-fed cattle, while Australia's cattle are grass-fed, resulting in meat of a lower quality.

In the second half of 1978, after much prodding by the U.S. Foreign Agricultural Service (FAS), U.S. Meat Export Federation (MEF), Office of the Special Trade Representative (STR) and private industry, Japan raised its hotel quota (a private quota for hotels and trading companies) from 1,000 to 3,000 metric tons per year. Since the Fall of 1978, many top-rate hotels have been built and yet not one pound has been added to the hotel quota.

Last year I visited Japan and delivered to U.S. Ambassador Michael Mansfield letters from U.S. Senator Heinz, U.S. Meat Export Federation president Alan Middaugh, Seafarers International Union president Frank Drozak, and United Food and Commercial Workers international president William Wynn. All of the letters took exception to Japan's restrictive trade policy on U.S. meat, especially finished products, and urged Ambassador Mansfield to encourage the Japanese government to relax its restrictions and expend its quota.

In addition, I delivered letters in the same context from UFCW president Wynn to MAFF, the Ministry of Agriculture, Forestry and Fishery, and the Ministry of International Trade and Industry [MITI], imploring Japan to voluntarily improve its restrictive trade policy or face the possibility of adverse reaction by American workers employed in the meat industry. To date, there has been no response.

While in Tokyo I met personally with the U.S. Agricultural Attache Dudley Williams, Asian director of the U.S. Meat Export Federation Dr. L. B. Tennison, and Ambassador Mansfield, who were indeed sympathetic but could offer no encouragement.

Also during my contact with Japanese government officials from LIPC, MITI and Zennikuren [the Japanese meat cooperative union]. I explained if the Japanese do not become more realistic with regard to their policy on U.S. meats they may face retaliation by U.S. workers and eventually even American consumers.

It is my opinion that Japan must take three immediate steps to ease the tension, reduce the trade imbalance and improve relations with the United States: (1) Increase the "Hotel Quota" by applying some of the 4,000 additional metric tons of high quality beef agreed to under the Multi-Lateral Trade Agreement; (2) persuade LIPC to include within its 30,000 metric-ton-per-year high quality beef quota some segment for Portion Control value-added meat products; and (3) substantially reduce the 25 percent levy—apply it to product only and eliminate the surcharge.

We cannot allow Japan, who exports 30 percent of its finished products to the United States, to continue to maintain restrictive quotas, high levies and tariffs and, at the same time, inundate the United States with Japanese products.

Senator HEINZ. Mr. Davis, thank you very much.

Mr. Sodolski.

STATEMENT OF JOHN SODOLSKI, VICE PRESIDENT, ELECTRONIC INDUSTRIES ASSOCIATION

Mr. SODOLSKI. Thank you, Mr. Chairman, and thank you for having me here today.

My name is John Sodolski, vice president, Electronic Industries Association, with specific responsibility for EIA's Communications Division.

Before I go into my brief statement, I would like to make an observation. We believe telecommunications is different. It's largely capital goods. We think it's the premier high technology industry of the balance of this century. It's the stuff nations are made of, the nerve system of a country, of a nation. It's probably, to the balance of this century, what steel was to nations in the last 20 years of the 19th century.

Having said that, which is a fundamental basic premise behind my testimony, let me start from the top.

[Complete statement follows:]

PREPARED STATEMENT OF JOHN SODOLSKI, VICE PRESIDENT, ELECTRONIC INDUSTRIES ASSOCIATION

My name is John Sodolski, Vice President, Electronic Industries Association, with specific responsibility for EIA's Communications Division. Electronic Industries Association has been in existence for over 50 years, and represents manufacturers of a broad front of electronic products. EIA's Communications Division is populated by firms which manufacture telecommunications equipment and systems, and represents in excess of 90 percent of the dollar volume of the U.S. telecommunications manufacturing industry. My remarks today represent, I believe, a consensus among our membership and our industry, although not all of our members may concur with all of my observations.

Let me start from the top. The national markets for telecommunications equipment and systems in the industrial nations of the world are largely closed to U.S. manufacturers and suppliers. With the exception of the United States and Canada, and perhaps the U.K., every major industrial nation's telecommunications system is controlled and operated by a government entity, usually a post and telecommunications authority, PTT.

Each nation's voice and data networks are operated by the PTT, and only to a limited extent is certain ancillary or "interconnect" equipment purchased and utilized by customers of the PTT rather than the PTT itself.

In addition to the control and operation of the network by the various PTTs, each telecommunications authority usually has one or several major domestic suppliers from whom it purchases the preponderance of its requirements. Often, if not usually, R&D toward new telecommunications equipment, systems and usage is funded by the PTT, and that development work is handled by the various chosen instruments.

This R&D work usually leads to production contracts, often long-term contracts lasting as much as 5 or 7 years. It is almost unheard of for a production contract, much less an R&D contract, to be awarded by a PTT of an industrial nation to a foreign supplier. In a very few instances certain European countries have purchased American equipment where they felt a real need for U.S. high tech or where it seemed politically expedient to do so.

In some countries, especially Japan, this has never been the case. They have done all development and all procurement with domestic firms.

This was to have changed with the signing, in December of 1980, of the Nippon Telegraph and Telephone Public Company (NTT) agreement between the U.S. and Japanese governments. The agreement was the result of years of negotiations. The agreement is cumbersome and complex, and at this point has yeilded no significant sales from the U.S. to Japan. At the same time (1980–1981) Japanese exports of communications equipment to the U.S. have increased by over 60 percent, from about $.4 billion to about $.7 billion

In addition to the institutionalized barriers to sales in developed and industrial nations, there is a litany of problems which encumber even the minor amount of telecommunications trade which might obtain against the background of PTT controls. These impediments include a number of nontariff trade barriers, not the least of which is type acceptance or type approval of telecommunications equipment before it may be used within that nation.

The entity which approves equipment in almost all cases is the PTT, which quite often will protract the process so as to discourage U.S. firms and other firms from even attempting to obtain such approval. This process is especially effective in protecting the ostensibly open "interconnect" markets mentioned above.

Some U.S. firms have subsidiaries in Europe and operate within those markets with varying degrees of success through those subsidiaries. It is unusual, however, that equipment and systems are sold to the European market directly from the United States.

The net of this is that Western European markets are de facto not open to U.S. commercial telecommunications sales. The Japanese market at this point appears closed for any non-Japanese equipment and systems. The December 1980 NTT agreement may change that, but at this point—fifteen months after the agreement was signed, and several years of negotiations—there still have been no significant sales.

This must be contrasted with the U.S. market for telecommunications equipment and systems, which is almost completely open to all foreign competition. With a secure domestic market base untroubled by foreign competition, our international industrialized trading partners are able to provide and sell high-tech equipment in the United States and to price flexibly while we are unable to do the same in their markets.

The imbalance and disadvantage to U.S. communications manufacturers is obvious. An equally obvious and appropriate answer would be equivalence in competitive access to telecommunications markets of our industrialized trading partners. However, even equivalence has its problems and imbalances. A few numbers might help illustrate that point.

The market for telecommunications equipment in the United States is generalized at something over $20 billion for 1981. The telecommunications market for all of Europe in 1980 was in the neighborhood of $10 billion. The telecommunications market in Japan as represented primarily by the Nippon Telegraph and Telephone Co. (NTT), and some other small markets, was a bit over $4 billion in 1980, and not that entire $4 billion is telecommunications.

The point of this is even if there were full and equitable telecommunications trading arrangements, the United States has a far larger, more homogeneous and better organized market than any market available abroad to U.S. manufacturers, and those markets are not at this point available.

The U.S. posture internationally in telecommunications trade and high-tech generally is a growing problem. I have seen the attitudes of executives in the telecommunications industry change from concern just a few years ago to dismay more recently, and many now are verging on anger at the trade situation.

If the U.S. telecommunications manufacturing industry is to prosper and to continue its technological lead, it must be free to compete fairly not only in the U.S. marketplace but also abroad. Our industry is willing and eager to meet any and all competitors anywhere, anytime, and to win fair competition based on price, quality, reliability or any other criteria. However, to do that we must be able to meet our competitors on their own ground, and currently we can't do that.

Thank you.

TELECOMMUNICATION SALES

Senator HEINZ. Mr. Sodolski, in your statement you point out that while the U.S. market for telecommunications equipment is open, the European and Japanese markets aren't. In dollar terms, how much telecommunications equipment was sold to the U.S. market in 1981 by the Europeans and Japanese and what was the dollar equivalent of what we sold to those markets?

Mr. Sodolski. OK. Let me give you the general overall import and export numbers for the last 3 years. In 1979, the U.S. imported $779 million worth of equipment. In 1980, the U.S. imported $955 million worth of telecommunications equipment. In 1981, the U.S. imported $1.3 billion of telecommunications equipment. The increase from 1979 to 1980 was 22.5 percent and the increase from 1980 to 1981 was 37 percent.

With regard to exports, in 1979, the U.S. exported $1.1 billion; in 1980, $1.3 billion; in 1981, $1.6 billion. The percentages there are from 1979 to 1980 an increase of 11.5 percent; from 1980 to 1981 an increase of 21 percent. This yields a balance of trade for those 3 years as follows: In 1979 we had a plus balance of trade—positive balance of trade of $409 million; in 1980, a positive balance of trade of $370 million; in 1981, a positive balance of trade of $297 million. The decline from 1979 to 1980 was 9.5 percent. The decline from 1980 to 1981 in positive trade balance was 20 percent.

Senator Heinz. Those numbers prove two things. No. 1, they prove what we sell is very competitive. People even under the most adverse circumstances, as you described in your statement, are nonetheless buying American telecommunications equipment.

I'm almost stunned and amazed that they can buy that amount.

The second thing that those numbers prove is that, as you mentioned, the favorable balance of trade in telecommunications is declining, and I'd like to ask you this. It's been reported that Japan has targeted the telecommunications field as one in which they wish to play a far more important role in the years ahead. They may, like you, see it as the industry of the future in the same way that steel was the industry of the future at the end of the 19th century.

Is it or is it not your understanding that telecommunications has indeed been targeted by the Japanese Government; and if so, what do you believe this means for future U.S. telecommunications exports?

Mr. Sodolski. Yes, I believe it's been targeted. In fact, Japanese Public Law 84, which superseded Japanese Public Law 17 which Mr. Olmer mentioned a few minutes ago, specifically calls out communications as one of the targeted industries.

I share, I believe it was Mr. Conor's observation that the increase in imports of telecommunications as a result of being targeted by the Japanese erodes our domestic base, makes it more difficult to compete here and more difficult to supply the capital and R. & D. to expand and stay current in this very rapidly changing industry.

But I'm reminded—you asked another question about statistics. Imports from Japan, as I said in my statement, were roughly $400 million in 1980, and about $700 million in 1981. Frankly, I believe it's closer to $1 billion because the method of collecting numbers within our Government misses a lot of high technology equipment. Now at the same time, in 1981, we exported $29 million to Japan.

Senator Heinz. And yet in those countries where we compete, if you will, with the Japanese, we do pretty well. Is that right?

Mr. Sodolski. We do well in what's called the Third World, given the lack of favorable financial arrangements and a variety of other things. But yes, where we are able to compete in a fair manner, we do quite well.

RECIPROCITY LEGISLATION

Senator HEINZ. Earlier I mentioned the reciprocity legislation that a number of us have introduced, Senator Danforth and myself in particular. Do you and your industry support the enactment of reciprocal trade legislation and would you view it as a positive development for members of the EIA?

Mr. SODOLSKI. Well, I can't speak for all of EIA because we are compartmentalized into various industry segments.

With regard to the communications industry, it is my feeling, subject to a vote in a few weeks, that our industry will support the reciprocity legislation as written. We feel it is the only efficacious way to get at the problem. We must be able to compete in their market. There are advantages to that in addition to just the sales that we would receive. There are several things about reciprocity, though, that I find puzzling, particularly in the last week when people began to weave a web of sophistry around the issue. Reciprocity means to us substantially equivalent competitive opportunities in another nation. Now how on Earth that could be construed as protectionist, I don't know, but most of the opponents seem to set up a protectionism straw man and then spend a good deal of time destroying that straw man.

Frankly, I think reciprocity is one of the least harmful things that might have to be done unless the situation with Japan changes.

Senator HEINZ. Another word for reciprocity is market access?

Mr. SODOLSKI. Yes, sir.

Senator HEINZ. As we view it, we are not asking people to make their market or their practices into a mirror copy or a carbon copy of the United States. We just want to compete on whatever terms are accorded competition domestically within a foreign country. We want to be able to be on substantially the same basis. This is what we do here in this country. Indeed, we sometimes give foreign people, particularly in the investment area, some advantages we don't accord to our own people. If you look at the International Banking Act, we actually permit foreign banks to do a lot more than we permit American banks to do. We don't permit American banks, among other things, to acquire banks in other States. That's what's happened with foreign-based banks.

But let me ask you one last question, Mr. Sodolski. In our hearing in November we took testimony on the nontariff barriers regarding the emerging problem of restrictions on the flow of information across national borders, transborder data flow. Do you believe that's a serious problem and, if so, are there specific implications from those transmission restrictions on the U.S. telecommunications industry?

Mr. SODOLSKI. Well, I'm a little uncomfortable with that question because I'm not totally familiar with the issues involved in transborder data flow. I have always thought it rather arcane. Whether it would impact on the manufacturers——

Senator HEINZ. Let me give you an example so it's not so arcane. American Express, an American company, has an office in, let us say—I think this is not just a hypothetical example, but let's call it a hypothetical example—has an office in Vienna. It has its main frame computer in Paris. It wishes to integrate its operations, its data processing operations using its main frame computer in Paris, but the Austrian Government will not lease it a telephone line with which to hook up to its computer in Paris but will lease a telephone line to its, shall we say, friendly Austrian competitor. That is called a transborder data flow problem.

Now does that help you at all?

Mr. SODOLSKI. Well, clearly, as you describe it, it's certainly disadvantageous to American Express. Whether it would have an effect on the industry I represent, the people who make equipment systems, I don't know. It could have just the opposite effect. It would require more systems rather than fewer.

Senator HEINZ. It could increase the market and thereby even if the market share didn't go up you might be better off?

Mr. SODOLSKI. Perhaps, but I say again, I'm not terribly familiar with that problem.

Senator HEINZ. All right. Well, let me turn now to Ron Davis, but before I do, there's something I would like to state for the record.

RETALIATION

We invited a very substantial number of other industry groups and individuals to testify at this hearing or to submit statements for the record. Many of them declined and gave oblique reference to their fear that they would be retaliated against by the Japanese Government, and I at first want to congratulate the present witnesses for their courage in being here.

Second, I want it on the record that if there is any retaliation against any of the witnesses or their industry groups or any of the companies associated with those industry groups, if there's any hint of retaliation by the Japanese for Americans coming forward before a congressional committee and speaking their minds, then the Japanese Government will find out what retaliation is all about, because we will not stand idly by if that kind of fear tactic is pursued. I hope the fears expressed by the witnesses who didn't come, who declined to come, are groundless. I hope that a great country like Japan would never for a minute consider such a tactic, but in the event there is in some bureaucracies some place such an instinct, I want it clearly understood what the consequences would be, and they would be grave, they would be immediate, and they would be unanimous.

Mr. Davis, the attitude of the Japanese Government toward the restrictions on the sale of United States beef strikes me as somewhat similar to the Soviet Union's policy of only permitting certain top level Communist party officials and select diplomatic personnel the privilege of buying Western items in special stores that are off limits to the general public.

Wouldn't hotels in Japan want to serve U.S. grain-fed beef? Wouldn't this in fact be a drawing card if they could get it and have hotel owners or managers attempted to ask the government, their government, to expand the quota on U.S. beef exports to be sold to hotels?

Mr. DAVIS. Mr. Chairman, the Japan hotel quota deals strictly with a few hotels and with trading companies who have quotas. The 3,000 metric ton per year which is given by the Japanese Ministry of Agriculture and Forestry is always used up far in advance of the time that it's given.

However, the Japanese restaurants, supermarkets, catering establishments cannot buy any U.S. beef. They are prohibited from this except for special promotions which the U.S. Embassy is allowed 100 metric tons per year.

The basic problem is the Japanese hotels and restaurants do not know what U.S. beef is really all about because of the very high price. In addition to the freight costs, the 25-percent tariff and the 25- to 75-cent surcharge and the fact that this only gets it to Japan's port and then it's taken by a trading company and sold to a wholesaler and the wholesaler then sells it to the hotel makes it so expensive that normal sized hotels and smaller hotels cannot even handle the U.S. product.

The major hotels such as the Imperial and the Okura and the new Okona and the Palace do use United States beef and are very pleased with it, and Japanese hotel associations and restaurant associations constantly come to our company and other major suppliers of Japan and ask us to go to our Government and ——

Senator HEINZ. I understand that, but they are Japanese. Why don't they go to the Japanese Government? You know, in this country, when an importer thinks there's some kind of a problem and he can't—because we have some restriction that to him doesn't make sense on, and let's make up a hypothetical example here, say the import of provalone cheese from Italy, he goes down to the Commerce Department. Our Commerce Department will help him bring in that Italian provalone cheese. We just do everything we can to help our importers or to help the customers of our importers because we believe that's a service to the public.

Now do the Japanese consumers, whether they be institutional as your customers are, or industrial, do they just not go to the Japanese Government? Are they turned away? Is it considered a loss of face for them to do that? What exactly is the problem?

Mr. DAVIS. There are two major problems. The first problem that we have is the fact that the Japanese industry people themselves are afraid of retaliation.

Senator HEINZ. The Japanese industry people who want American products are afraid of retaliation?

Mr. DAVIS. That's correct.

Senator HEINZ. By whom?

Mr. DAVIS. By the Ministry of Agriculture and Forestry, which is the agency which allows the Japanese trading companies to purchase meat from the United States and other countries.

Senator HEINZ. But they don't mind if you get retaliated against if you go to the Japanese Government?

Mr. DAVIS. That's right. One of the major Japanese trading companies participated in a——

Senator HEINZ. That's really decent of them, I'd say.

Mr. DAVIS. One of the major Japanese trading companies, one of the top 10 which sells over $5 billion a year in business, participated in a show called the Space Expo. The show was pushed by some

Japanese business people and eventually the U.S. Embassy, and the Japanese union was against it. The trading company that was involved eventually did not receive any more special quotas and for 3 years since they have not received a single U.S. quota for a show where before that they received one ever year.

Senator HEINZ. Is that why Australia has a higher percentage of the market? Are we being discriminated against because we are trying to get in there and the Australians——

Mr. DAVIS. The Australians play hardball. That's reciprocity to them. The Australians say, "If you don't buy our bauxite, we won't sell you our meat, and if you don't buy so much meat, we won't sell you the bauxite." They look at items the Japanese must have and they indicate to them that unless they buy meat, unless they buy a lot of meat, they won't sell them bauxite, which is necessary in Japan. The Australians are not afraid to intimidate the Japanese, which is exactly what the Japanese do with most other people.

Senator HEINZ. That's called fighting fear with fear.

Mr. DAVIS. Yes; the second thing is that the Japanese Democratic Party wields a kind of special fear among the U.S. State Department people. There are 141 Diet members who come from the rural community. Japan has not redistricted since before World War II, which means that these 141 Diet Members—some of them have less than 300 constituents, many of whom have 1 or 2 cows who indicate that if they buy U.S. beef they are going to endanger their livelihood.

Senator HEINZ. And the livelihood of the Diet Member?

Mr. DAVIS. That's right. And they have not redistricted and they control the Japanese Democratic Party, plus a large amount of the 25 percent tariff goes to support the Japanese Democratic Party, and I have been told on more than one occasion that if we do anything to interfere with this kind of situation they will in fact topple over the Japanese Democratic Party and we wouldn't know what to expect.

Senator HEINZ. What would we get? If the Japanese actually went in for such a radical concept as one-man, one-vote, what kind of government would take over in Japan?

Mr. DAVIS. Well, the type of government that would take over might in fact be more attuned to the needs of the masses. They would realize that the Japanese don't have to pay $20 and $25 a pound for beef to protect an industry. They would allow the product to come in and be able to sell it like they do in Hong Kong and Taiwan and Singapore or anywhere from $7 to $14 a pound depending on the cut of meat, and as a result be able to offer to the Japanese a food which is a very important commodity at substantially below what they are paying at the present time.

Senator HEINZ. Have the Japanese—do they ever discuss the idea of reapportionment, a very interesting issue in my State right now? Everybody is wondering what their congressional district will be.

Mr. DAVIS. Not to us, they don't.

Senator HEINZ. They don't even discuss it?

BOYCOTT—PICKET—RECIPROCITY

Mr. DAVIS. No. Mr. Chairman, there are three things that we have to consider in order to get the Japanese to do something, and I get tired of listening to people who go over there to negotiate because we don't negotiate; we compromise. There are three dirty words the Japanese do not like to hear. One is boycott, the fact that American citizens might in fact not buy Toyotas or might not buy Japanese made baseball gloves or might not buy Japanese calculators. This concerns them very much.

The second thing is when we had this boatique American—this 130 metric tons—the Japanese unions first told the Department of Commerce they were going to picket the ship if U.S. beef was carried on. I immediately went to the United Food and Commercial Workers and the Seafarers International Unions who sent off telegrams and said the minute you put a picket on there we're going to picket the first ship that comes in with Japanese automobiles and you won't get one automobile in. The next day we were told the Japanese were told not to picket our ship. That's the kind of thing they understand.

The third thing is reciprocity. Reciprocity means if you're going to charge us 25 percent tariff, then we're going to have to charge you 25 percent tariff.

The only thing we're looking for is free access to the market and then we will compete with anybody else.

Senator HEINZ. You mentioned in your statement that you had what sounded like innumerable meetings and discussions with Ambassador Mansfield.

Mr. DAVIS. Yes.

Senator HEINZ. Would you say Ambassador Mansfield is not only sensitive to but is doing something about these trading concerns, or is he not doing much of anything about these trading concerns?

Mr. DAVIS. Based on the changes that have happened to date, I would say he's not doing anything. Whether he's sensitive or not depends on how he feels his position is with the Japanese community overall. We were talking about one specific area and that was beef, and he might feel that he has to cover too many areas. But from the time I was there in May of last year, there has been not one single change in the structuring of either their tariffs or their opening up additional avenues for our products.

Senator HEINZ. Now Ambassador Mansfield, of course, served here in the Senate with great distinction, very much respected and loved here. He has been the Ambassador to Japan since his retirement from the Senate in January 1977 or thereabouts. But my question, nonetheless, is, could an ambassador that was much better versed in trade, had a background as a trade negotiator, understood many of our trade problems with Japan—would that kind of ambassador be a better ambassador when it comes to the resolution of the kinds of problems we're talking about here today than Ambassador Mansfield?

Mr. DAVIS. Ambassador Mansfield is considered to be the most respected U.S. official in Japan since Douglas McArthur, and he might have been very controversial, but the Japanese people respected him a great deal. Since that time there's been nobody who's been particularly well respected until Ambassador Mansfield.

I feel that if he wanted to utilize all the skills that he had when he was with the Senate and in fact really get into this area of international trade, he could have nothing but a positive effect.

Senator HEINZ. Mr. Conor, you and your sportings goods people have made an excellent presentation. I have to ask you this, even though the answer seems obvious, but the Japanes say that American business doesn't make the effort; that we just don't try hard enough. Is there any truth to that when it comes to selling in Japan?

Mr. CONOR. I think there's a possibility that some companies have found it difficult and probably have not tried as hard as they should but I can assure you there are a tremendous number of companies that have tried extremely hard in areas where there are no barriers and have been extremely successful. We had virtually every Japanese between the age of 6 and 60 bowling with our American equipment in 1972. It can be done but when barriers are put up, frankly we're helpless.

Senator HEINZ. Now do you think that we would make some progress with Japan if we enacted the kind of reciprocity legislation we discussed earlier? Would that begin to send them a message that we're serious?

Mr. CONOR. I think the way you have described it, Senator, that the purpose of your legislation is to give us market access and I think that's the right approach. The Japanese must understand that it is to give us market access and to knock down their protectionism and not to increase ours. Then I would say we are fully in favor of it and I'm sure that's the intent of your bill and that aspect we fully support.

Senator HEINZ. Assuming that kind of legislation and our willingness to use it did reduce some of the kinds of nontariff barriers that you have discussed—and you have discussed some very sophisticated nontariff barriers—the inflatable ball associations in Japan who endorse the Japanese inflatable balls and no others irrespective of price or quality apparently—what would happen? What exactly would happen? Would the manufacturers go to the Japanese Government and say, "We would like to endorse something besides Japanese balls," or would the baseball teams go to the baseball bat league and say, "Listen, those American bats are darned good and we'd really like the chance to use a few of them." What would happen in Japan? Would there be anybody in Japan who, first of all, would be asking to have access to maybe a better product at a better price and thereby be a potential customer, or would the barriers kind of sink into the sand and disappear only to be replaced by something even more sophisticated?

Mr. CONOR. I think, as I said earlier, getting over the barrier to have the items approved in Japan is only the first step. There are also entrenched procedures and distribution arrangements in Japan which are extremely complex. It could be a long, hard battle and we all appreciate that. We would at least like to have a chance to play the ballgame, though, and we know there are Japanese businessmen who have done some tremendous work for us over the years who could help us break through some of these barriers, but it's not going to be a quick reaction. There are a dozen other quicksands before we get through to finally entering the market.

Senator HEINZ. Now on page 2 of your statement you quote from a communication from a major Japanese corporation that apparently wants to distribute your balls?

Mr. CONOR. Yes, sir.

Senator HEINZ. They are asking you to go to their Government to solve their commercial problem?

Mr. CONOR. They're asking us to come to our Government.

Senator HEINZ. First to our Government which then goes to their Government?

Mr. CONOR. Yes; to help break the barrier.

Senator HEINZ. And the question I've got is, what have they done with their Government?

Mr. CONOR. I believe we had some of the same problems Mr. Davis suggested. I believe the Japanese are always somewhat reluctant to press their Government too hard. I believe these people have made some efforts but they do not feel that this, in itself, is adequate to resolve the problem.

Senator HEINZ. Yet the Japanese businessmen you talk to don't want us to set up a similar kind of mechanism for approving of Japanese imports into this country. What should we do, sit on our hands and just say, you know, you won't help yourselves; you expect us to help you and yet every time we discuss doing what you do, you think it's a terrible idea. What's the answer to that problem?

NEGOTIATORS MUST TAKE FIRM STAND

Mr. CONOR. Having lived and worked in Japan off and on for some 35 years, I think I understand. They are a highly disciplined nation. If they thought their Government said it was OK, they would cooperate, but they are reluctant, because of their homogeneity, to break the pattern and they feel that if we can help them break down the barriers, they would like us to do so. Many Japanese businessmen I have worked with over the years really are concerned that the American negotiators and the American Government have given in too much to their Government. They sometimes think our people have been soft.

Senator HEINZ. They think that our Government has given in to their Government?

Mr. CONOR. Yes.

Senator HEINZ. Now can you detail that? Can you flush that skeleton we just found in the closet out a little bit?

Mr. CONOR. I think that's exactly why we received this letter from the Japanese businessman. It's a very precise thing here. They feel that if our Government had taken a firmer stand and demanded that the Japanese open the market. They would be free to sell our products.

Senator HEINZ. Who in our Government is giving up on this?

Mr. CONOR. Well, it's probably in some of the areas our trade negotiators. I think we have a perfect case of it right here.

Senator HEINZ. Is it our trade negotiators who go over there from time to time or is it the commercial attache or the Ambassador? Who is it that's backing off or causing someone to back off?

Mr. CONOR. There was a statement—I believe it's in the Washington magazine, the National Journal—where one of Bob Strauss' assistants, a Mr. Greenwald said at the time they previously negotiated with the Japanese they thought they had made a great agreement but now he realizes it was a hollow victory.

Senator HEINZ. This is on NTT?

It sounds to me like you're talking about Nippon Telephone and Telegraph, the agreement on the procurement——

Mr. CONOR. I also believe our negotiators gave in on the beef arguments and gave in on the number of quotas they accepted. If I understand Greenwald's comments, he said it was a hollow victory and he now realizes they probably didn't negotiate as firmly as they should have. I have heard similar comments from Japanese business people who feel that we have probably given in too much. We should have been more insistent to give us access to their markets.

Senator HEINZ. So our Government is part of the problem too. Our Government is not advancing the cause of free trade?

Mr. CONOR. Right.

Senator HEINZ. We are acquiescing in unjustified, counterproductive protectionism that even many people in Japan don't want?

Mr. CONOR. I think that's right.

Senator HEINZ. Now what would be the motive? You just described what I consider just abhorent behavior. If there was a statute of criminality involved I would call it either neglectful or criminal because of its effect. What would the motive be for American representatives representing the interests of this country not to represent the interests of this country? Whose interest would they be representing and why?

Mr. BRUNS. I think the first thing, Senator, if I may, would be the lack of facts to negotiate with which we are just now beginning to uncover. In the past there have been a lot of accusations but no smoking guns. I think what we've surfaced in the last year, particularly with our industry, is a smoking gun. We really caught them with nontariff barriers.

Senator HEINZ. Well, assuming, Mr. Bruns, that that's an accurate appraisal—it may very well be—one of the things on which we ought to insist, starting yesterday, that our Government do, as we have attempted to insist with subtleties, is create a library on nontariff barriers and charge our people with identifying them very clearly and documenting them to the best of their ability. I must say I'm deeply shocked and totally disappointed by the performance of the Commerce Department so far on having failed in the mission with which I and other Members of the Congress charged them in doing this in the subsidy area. As I understand it, the subsidies library that Commerce Department was charged with creating, amounts to two or three boxes of information which are unattended somewhere in the basement of the Commerce Department three or four years after we gave them that charge within the 1979 Trade Act. This is hardly an aggressive response to a growing problem.

We should charge them to do that successfully and immediately and we should do the same thing with respect to the kinds of nontariff barriers that you have just described.

Mr. CONOR. Senator Heinz, I would like to comment that, we in the last year, have been extremely pleased with the very quick and positive reaction we are getting from both Ambassador Brock's office and Secretary of Commerce Baldrige's office. Never before have we received answers back in the same week we made a protest or request. It's absolutely wonderful to know that somebody in Washington is concerned. That's the impression we're getting and I would like to leave you with that impression.

Senator HEINZ. I think that's right. I think both Ambassador Brock and Secretary Baldrige are very concerned. This is a very big problem, but I must say, despite their concern, none of us—they or you or we—have much in the way of results.

TIME TO PLAY HARDBALL

Mr. BRUNS. Senator, I'd like to add to that to echo Mr. Davis' comment, I think it's time now to play hardball and we applaud the bill that you have introduced because that's how we interpret it, just that. If we do not now capitalize on the opportunity and the sentiment that's sweeping the Nation, we're going to be back here next year and the year after continuing to talk about this rather than resolving it. And the sporting goods industry en masse supports you and the effort that you're making to give all of us some teeth into what we're trying to do because we feel that there is a window of opportunity that exists maybe for 60 days or maybe 6 months, but definitely by the end of the year, where something has to be done or that window will close. We, as an industry, are prepared to establish our own nontariff barriers or reciprocity, if you will, if our Government cannot do it for us.

Senator HEINZ. I think that that is worth emphasizing and it reiterates a conclusion, an inference, that Ambassador Macdonald came to sitting where Mr. Conor is now sitting, which is that it almost seems, given the unwillingness, inability or whatever of the Japanese to come to grips with this market access issue, that they really are saying to us that they would much prefer that we simply put up quotas, put up tariffs against Japanese products; this would cause them the least problem. In other words, it is the Japanese who are inviting protectionism. It is we who are asking for market access and yet, as one of you mentioned, Mr. Sodolski, I believe, that there are people who persist in the notion that anything we do to gain market access is somehow protectionist. It is the opposite.

I thank you all for being here. Are there any additional comments or statements? If not, the hearing is adjourned.

[Whereupon, at 11:50 a.m., the hearing was adjourned.]

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